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ABSTRACT

This document contains (1) the text of the Full Employment and Balanced Growth Act of 1976 (H.R. 50), a bill to establish a national policy and nationwide machinery for guaranteeing to all adult Americans able and willing to work the availability of equal opportunities for useful and rewarding employment, (2) the statements made in committee hearings by 16 individuals (including Congressmen; labor union officials; representatives of state, city and Federal government departments; and other economic advisors), and (3) prepared statements, letters, and supplemental materials submitted to the committee by these individuals. (WL)

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FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

HEARINGS

BEFORE THE

SUBCOMMITTEE ON MANPOWER, COMPENSATION, AND HEALTH AND SAFETY

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

H.R. 50

TO ESTABLISH A NATIONAL POLICY AND NATIONWIDE MACHINERY FOR GUARANTEEING TO ALL ADULT AMERICANS ABLE AND WILLING TO WORK THE AVAILABILITY OF EQUAL OPPORTUNITIES FOR USEFUL AND REWARDING EMPLOYMENT

HEARINGS HELD IN WASHINGTON D.C.
APRIL 2, 6, 8, 9, 12, AND 14, 1976

Printed for the use of the Committee on Education and Labor

CARL D. PERKINS, *Chairman*

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FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

FRIDAY, APRIL 2, 1976

House of Representatives,
Subcommittee on Manpower, Compensation, and
Health and Safety of the Committee
on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2261, Rayburn House Office Building, Hon. Dominick V. Daniels presiding.

Members present: Representatives Daniels, O'Hara, Hawkins, Ford, Meeds, Beard, Quie, and Sarasin.

Staff present: Daniel Krivit, counsel; Saralee Schwartz, research assistant; Nathaniel Semple, minority counsel.

Mr. **Daniels**. The Subcommitte on Manpower, Compensation, Health and Safety will come to order.

This morning, the subcommittee on Manpower, Compensation, Health and Safety commences its hearings on H.R. 50, the Full Employment and Balanced Growth Act of 1976. This bill is unique and a vital piece of legislation.

H.R. 50 is unique because it embodies both the new concepts of national economic planning. H.R. 50 is vital, because it has been specifically designed to address the Nation's most compelling and tragic problem of employment.

Congressman Augustus Hawkins, the distinguished chairman of the Equal Opportunities Subcommittee, who is on the dais this morning with me, has devoted a considerable amount of time and effort to the development of the bill before us today. I know all of the members of my subcommittee join with me in congratulating Congressman Hawkins for the comprehensive legislation his subcommittee has produced.

I support the working goals of H.R. 50. Our subcommittee will now develop its efforts to a further investigation of the economic, social, and human aspects of the problems that this legislation is designed to solve.

Manpower policy has been, and continues to be, a primary focus of this subcommittee and we will examine, with particular attention, the manpower policy concepts of this legislation. Our efforts will be constructive, our recommendations will be realistic.

Millions of jobless Americans are counting on us to do something positive about their plight. We intend to do our part to insure that the goals of H.R. 50 are realized.

We agree that the goals of full employment and economic growth must be a full reality.

[Text of H.R. 50 follows:]

Union Calendar No. 611

94TH CONGRESS
2D SESSION

H. R. 50

[Report No. 94-1164]

IN THE HOUSE OF REPRESENTATIVES

JANUARY 14, 1975

Mr. HAWKINS (for himself and Mr. REUSS) introduced the following bill; which was referred to the Committee on Education and Labor

MAY 14, 1976

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To establish a national policy and nationwide machinery for guaranteeing to all adult Americans able and willing to work the availability of equal opportunities for useful and rewarding employment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

~~SHORT TITLE~~

~~SECTION 1. This Act may be cited as the "Equal Opportunity and Full Employment Act"~~.

~~DECLARATION OF POLICY~~

~~SEC. 2. (a) The Congress hereby declares that all adult Americans able and willing to work have the right to~~

I—O

~~equal opportunities for useful paid employment at fair rates of compensation.~~

~~(b) The free exercise of this right by every American, irrespective of sex, age, race, color, religion, or national origin, is essential to personal liberties, individual development, the prevention of inflationary shortages and bottlenecks, and the well-being of families, organizations, the national economy, and society as a whole.~~

~~(c) Only under conditions of genuine full employment and confidence in its continuation is it possible to eliminate the bias, prejudice, discrimination, and fear that have resulted in unequal employment under unequal conditions of women, older people, younger people, and members of racial, ethnic, national, or religious minorities.~~

~~(d) To the extent that Americans may not be able to exercise this right, (1) the country is deprived of the larger supply of goods and services made available under conditions of genuine full employment, of the trained labor power prepared to produce needed goods and services, and of the larger tax revenues received at all levels of government, without any changes in tax rates, under conditions of genuine full employment, (2) inflationary shortages and bottlenecks are created, (3) the job security, wages, salaries, working conditions, and productivity of employed people are impaired, (4) families are disrupted, (5) individuals are de-~~

~~prived of self respect and status in society, and (6) physical and mental breakdown, drug addiction, and crime are promoted.~~

~~(e) It is the responsibility of the Federal Government to enforce this right, to redress such past and present deprivations and impairments of this right to the maximum extent feasible, and to prevent such deprivations and impairments in the future by developing and administering such policies and programs as may be needed to attain and maintain genuine full employment.~~

~~(f) Such other national economic goals as price stability and a favorable balance of payments shall be pursued without qualifying, limiting, compromising, or undermining the rights and guarantees established in this Act.~~

~~THE FULL EMPLOYMENT AND PRODUCTION PROGRAM~~

~~The Economic Reports of the President~~

~~SEC. 3. (a) In his or her economic report to the Congress pursuant to the Employment Act of 1946, as amended (15 U.S.C. 1022), the President shall, with the assistance of the Council of Economic Advisers, transmit every year, and regularly revise and update every six months, a full employment and production program, both long range and short range, which, in addition to the requirements of section 1022(a), of title 15, United States Code, shall set forth in summary and detail—~~

~~(1) the estimated volume of goods and services, both private and public, required to meet human and national needs, including but not limited to food, fibers, raw materials, energy resources, production facilities, housing, consumer goods, utilities, transportation, distribution, communication, day care facilities, education, health, welfare, artistic and cultural activities, scientific and technological research, and general government services;~~

~~(2) the estimated levels and types of paid employment, both part time and full time, required to provide the volume of goods and services set forth in paragraph (1);~~

~~(3) the estimated levels of expenditures for investment, consumption, and other purposes, both private and public, needed to provide the levels and types of paid employment set forth in paragraph (2);~~

~~(4) whatever shifts in output, employment, and expenditure patterns, or appropriate expansions in desirable alternative activities or facilities, which may be required to facilitate necessary reductions and conversions in military and other industrial activities or facilities;~~

~~(5) a full and detailed review of actions attempted or accomplished under this Act and whatever changes~~

~~in administrative policies and legislation may be needed to achieve the objectives set forth in paragraphs (1), (2), (3), and (4) of this section; and~~

~~(6) a review of such related considerations as price levels, international trade, capital export and import, exchange rates, the concentration of economic power, the extent of monopolistic or oligopolistic control over various markets, and the level and distribution of income and wealth, and of wages, salaries, and property income.~~

~~The Labor Reports of the President~~

~~(b) The annual manpower reports of the President (pursuant to 42 U.S.C. 2574) shall henceforth be called the Labor Reports of the President and, in addition to the requirements set forth in subsection (a) and in section 2574 of title 42, United States Code, shall provide detailed attention on a continuing and progressively analytical basis to—~~

~~(1) the changing volume and composition of the American labor supply, by major areas of the country, with special emphasis on the total number of people able and willing to work under varying conditions of remuneration and suitability, the extent of various forms of involuntary unemployment and underemployment (including those not working or seeking to work but able and willing to work if suitable opportunities were pre-~~

~~sented, and those between jobs), estimates of recent, present, and prospective shortfalls in private and public employment opportunities, the impact of mobility and immigration, and the volume of national product lost by such waste or insufficient use of available labor power;~~

~~(2) the loss of productive labor power, together with associated lost production, as a result of discrimination on the basis of sex, age, race, color, religion, or national origin;~~

~~(3) the need for greater opportunities for part time paid employment with related fringe benefits and job security protection;~~

~~(4) the implications of continuing full employment for possible increases in voluntary leisure for reductions in the daily, weekly, monthly, or annual hours of paid work, for flexible work schedules, for paid vacations and sabbaticals, and for more extensive combinations of education and employment;~~

~~(5) the associated problems of the nature and environment of work, the quality of work, career opportunities, productivity and related problems of work content, job satisfaction, labor-management relations, and worker participation in employment decisions; and~~

~~(6) the national implications of the reservoirs of public service and private employment projects devel-~~

~~oped by the local planning councils under section 4 of this Act.~~

~~LOCAL PLANNING COUNCILS~~

~~Sec. 4. (a) The Congress hereby recognizes that (1) the specific identification of local needs for additional goods, services, and employment opportunities can best be handled by local governments, communities, groups, and individuals, and (2) to carry out their functions under this Act, the President, the Secretary of Labor, and other officials and agencies of the Federal Government need the continuing input of ideas, proposals, advice, and criticism from local governments, communities, groups, and individuals.~~

~~(b) Section 104 of the Comprehensive Employment and Training Act of 1973 is amended to add a new paragraph to read as follows:~~

"~~In addition to its other functions and responsibilities, the planning council shall—~~

~~"(1) identify local needs for additional employment opportunities, and under guidelines to be established by the Secretary of Labor, shall select and plan projects to provide a reservoir of public service and private employment projects to supplement available employment. Such projects shall include expanded or new goods and services that reflect the needs and desires of the local community, such as social services, community health~~

~~services, day care facilities, legal aid, public transit, housing, recreation, cultural activities, sanitation, and environmental improvement (including projects listed in clause 4 (c) (2) below) ; and~~

~~"(2) take part in monitoring and evaluating programs under the Equal Opportunity and Full Employment Act in accordance with standards and criteria published by the National Institute for Full Employment and pursuant to guidelines established by the Secretary of Labor.".~~

~~(c) Each Planning Council (established by section 104 of the Comprehensive Employment and Training Act of 1973 and herein referred to as "local planning council") shall, pursuant to regulations of the Secretary, provide for—~~

~~(1) the establishment of community boards in community or neighborhood areas which form a feasible and cohesive unit for supplying public service job opportunities. Such community job boards (A) shall to the maximum extent feasible be elected by the residents of the community or neighborhood area and shall fairly represent all segments thereof; and (B) shall be subject to the supervision and review of the local planning councils where they exist; and~~

~~(2) the establishment of community public serv-~~

~~ice work reservoirs through action of the community job boards. Such reservoirs shall include, but shall not be limited to, projects for (A) infrastructure construction, repair, and maintenance, (B) assistance to any member or group of individuals mentioned in subsection 5(d), (C) construction, repair, or maintenance of public buildings, (D) combating drug abuse, (E) charitable and educational purposes, (F) public recreation, (G) juvenile delinquency prevention, (H) assistance to the elderly and disabled, (I) environmental control, and (J) such other purposes as the Secretary may designate;~~

~~UNITED STATES FULL EMPLOYMENT SERVICE~~

~~Sec. 5. (a) The United States Employment Service shall henceforth be called the United States Full Employment Service.~~

~~(b) In addition to its responsibilities under other statutes, the United States Full Employment Service under the general direction of the Secretary shall assist in the establishment of, in each labor market area in the country in conjunction with the local planning councils acting under section 4(b), the reservoir of public service and private employment projects.~~

~~(c) A Job Guarantee Office is hereby created in the~~

~~United States Full Employment Office headed by a Job Guarantee Officer whose responsibility is to provide useful and rewarding employment for any American, able and willing to work but not yet working, unable otherwise to obtain work and applying to such office for assistance. The Job Guarantee Office shall carry out its responsibilities under this Act in connection with the implementation of subsection (c) upon the recommendation and approval of the local planning councils. Nothing in this Act shall preclude the Job Guarantee Office from contracting directly with the local planning councils for (1) the administration of individual public service and private employment projects or (2) the overall administration of all or any part of such projects within the jurisdiction of the local planning councils.~~

~~(d) Each Job Guarantee Office in carrying out its responsibilities shall insure that among projects planned that adequate consideration be given to such individuals and groups as may face special obstacles in finding and holding useful and rewarding employment and shall provide or have provided through the coordination of existing programs special assistance including but not limited to counseling, training, and, where necessary, transportaton and migration assistance. Such individuals and groups shall include (1) those suffering from past or present discrimination or bias on the basis of sex, age, race, color, religion, or national origin,~~

~~(2) older workers and retirees, (3) the physically or mentally handicapped, (4) youths to age twenty-one, (5) potentially employable recipients of public assistance, (6) the inhabitants of depressed areas, urban and rural, (7) veterans of the Armed Forces, (8) people unemployed because of the relocation, closing, or reduced operations in industrial or military facilities, and (9) such other groups as the President or the Congress may designate from time to time.~~

~~(e) For the purpose of drawing on the reservoir of public service and private employment projects and providing employment opportunities to applicants, each Job Guarantee Office may, subject to the limitations specified in subsection (c)) enter into agreements with public agencies and private organizations operating on a profit, nonprofit, or limited-profit basis. Such agreements shall contain assurances that the agency or organization will—~~

~~(1) provide an annual independent audit to the Job Guarantee Office. Such agency or organization shall at all times make its records and books available to reasonable review by agents of the Job Guarantee Office;~~

~~(2) not discriminate on the grounds of sex, age, race, color, religion, or national origin in the administration of any program encompassed within the agreement;~~

~~(3) observe the prohibitions contained in chapter~~

~~15 of title 5 of the United States Code (relating to political activities in federally funded projects); and~~

~~(4) submit an annual report to the Job Guarantee Office detailing its activities under the agreement.~~

~~(f) It is the responsibility of the Job Guarantee Office to insure that any person willing and able to work (a "jobseeker") is provided the opportunity to be employed at a suitable and comparable job (as defined in subsection 6(b)(2) below). For the purpose of fulfilling this responsibility the Job Guarantee Office shall, as appropriate—~~

~~(1) refer jobseekers to the private sector and general public sector employment placement facilities of the Full Employment Service (other than as supplemented by this Act);~~

~~(2) directly refer jobseekers for placement in positions on projects drawn from the reservoir of public service and private employment projects, and~~

~~(3) register jobseekers in the standby Job Corps (as established in subsection 6(a) below).~~

~~The Secretary shall provide by regulation for procedures to assure that registration under clause (3) above shall occur upon presentation of the jobseeker to the Job Guarantee Office unless a placement process is begun under clause (1) or (2) above which presents a high probability of success within five days.~~

~~(g) For the purposes of this Act, any jobseeker who presents himself or herself in person at the Full Employment Office shall be considered prima facie "willing and able" to work. This specifically includes persons with impairments of sight, hearing, movement, coordination, mental retardation, or other handicaps. This subsection shall be implemented by the Job Guarantee Officer, pursuant to regulations issued by the Secretary. Such regulations shall provide for—~~

~~(1) an initial determination by the Job Guarantee Officer as to the jobseeker's ability to work;~~

~~(2) compliance with section 703 of the Civil Rights Act of 1964;~~

~~(3) such administrative appeal procedures as may be appropriate to review such determination where adverse to the jobseeker;~~

~~(4) termination of such appeal procedures within thirty days; and~~

~~(5) placement of such jobseeker on the payroll of the Standby Job Corps pending such appeal or any judicial review thereof.~~

~~(h) The district courts of the United States shall have jurisdiction of any action brought seeking relief pursuant to this Act, including injunctive, declaratory, and other forms of relief as well as damages. Any person deprived of rights~~

~~secured by this Act shall be entitled in an action brought against the United States to recover damages, together with costs and attorneys' fees.~~

~~STANDBY JOB CORPS~~

~~SEC. 6. (a) There is hereby established a Standby Job Corps which shall consist of jobseekers registered pursuant to clause 5 (f) (3) above. Such Corps shall be available for public service work upon projects and activities that are approved as a part of community public service work reservoirs established by community boards pursuant to section 4 (c) (2).~~

~~(b) The Secretary, by regulation, shall provide for—~~

~~(1) a requirement that jobseekers registered in the Standby Job Corps (hereafter called Corps members) maintain a status of good standing, which status shall include attendance and performance standards;~~

~~(2) a system of compensation for Corps members which shall:~~

~~(A) provide that Corps members shall receive a monthly rated sum based upon their employment at a suitable and comparable job (as defined pursuant to paragraph (B) below);~~

~~(B) contain a definition of a "suitable and comparable job" which shall take into account, among other factors, the following:~~

~~(i) No Corps member shall be paid less than the minimum wage in effect in the area; and~~

~~(ii) Corps members shall receive compensation (a) that bears a positive relationship to their qualifications, experience, and training; and (b) that is such that will effectively encourage them (from an economic standpoint) to advance from the Corps to other employment;~~

~~(3) the fullest possible planning and operational control of the local Standby Job Corps program at the community and neighborhood level (consistent with 4 (c) (1) (B) above);~~

~~(4) full and effective prohibition of (A) discrimination on grounds of sex, age, race, color, religion, or national origin and (B) improper political activity;~~

~~(5) reasonable oversight and reporting in respect to projects utilizing Corps members; and~~

~~(6) assurance that no activities undertaken pursuant to this subsection shall adversely affect prevailing wage rates in the area.~~

~~CONGRESSIONAL JOINT ECONOMIC COMMITTEE~~

~~SEC. 7. (a) In addition to its responsibilities under the Employment Act of 1946, as amended (15 U.S.C. 1022), the Joint Economic Committee shall—~~

~~(1) annually review the activities of the executive branch under all sections of this Act;~~

~~(2) regularly conduct on its own behalf, or in cooperation with or through the facilities of the appropriate legislative committees or subcommittees of the Senate and the House, public hearings in as many labor market areas as feasible, with special emphasis on opportunities for hearing petitions and complaints by individuals and groups who feel that they have been denied their rights to employment opportunities or have been injured directly or indirectly by policies and programs designed to guarantee the exercise of rights; and~~

~~(3) annually report upon, with its own conclusions and recommendations, the development and administration of the policies and programs mandated by this Act.~~

~~(b) (1) In addition to its responsibilities under subsection (a), the Joint Economic Committee shall, within thirty days of the submission of the biyearly full employment and production program as required pursuant to subsection 3 (a)—~~

~~(A) review such program and suggest whatever modifications the committee deems advisable;~~

~~(B) submit such modified program to the respective Houses of the Congress, together with the committee's comments on all parts thereof, including a justification for all modifications made in the program as submitted by the executive;~~

~~(C) submit a recommendation to both Houses of the Congress as to the sums needed to be appropriated to finance such program as submitted pursuant to clause (B) above (hereafter called the employment deficit recommendation).~~

~~(2) The full employment and production program, as modified pursuant to paragraph (1) above and as submitted pursuant to clause (b) (1) (B) above, and the employment deficit recommendation submitted pursuant to clause (b) (1) (C) above shall be forthwith referred to the Appropriations Committees of the respective Houses for a period of thirty days. Said committees shall (1) recommend appropriations consistent with the employment deficit recommendation and (2) make such other recommendations as they deem advisable.~~

~~(3) At any time after the expiration of the thirty days specified in paragraph (2) above it shall be a highly privi-~~

~~leged motion in both Houses of the Congress that may be made by a Member of either body for the immediate consideration of the employment deficit recommendation of the Joint Economic Committee submitted pursuant to clause (b) (1) (C) above as a joint resolution of the respective body appropriating the sums specified in the employment deficit recommendation.~~

~~(4) After the making of the motion specified in paragraph (3) above, it shall immediately be in order to consider the recommendations made by the Appropriations Committee pursuant to paragraph (2) above.~~

~~(5) Three legislative days after the making of the motion specified in paragraph (3) above, there shall be upon motion made no further debate, amendments, or other proceedings in regard to the employment deficit recommendation and a vote on all pending amendments and final passage shall be ordered forthwith.~~

~~STAGES OF IMPLEMENTATION~~

~~SEC. 8. (a) The Congress hereby recognizes that (1) the full objectives of this Act cannot be attained immediately upon its enactment, (2) considerable time will be needed to develop the Full Employment and Production Program, the research work under the National Institute for Full Employment, the local planning councils, the community boards, the Community Public Service Work Reservoirs, the Standby~~

~~Jobs Corps, the Reservoirs of Public Service and Private Employment Projects, the United States Full Employment Service, the Job Guarantee Offices, and the additional responsibilities of the Congressional Joint Economic Committee, and (3) the implementation of the Act therefore must be accomplished in a series of stages.~~

~~(b) The President is authorized and directed to provide, by regulation, guidelines, and otherwise, for the full implementation of this Act by the end of the fifth calendar year after its enactment, at which time the provisions of subsections 5 (g) and (h) shall enter into effect. This subsection shall not be construed to prevent the President from effecting full implementation of this Act by an earlier date, including the provision of the entering into effect of subsections 5 (g) and (h) by such earlier date.~~

~~(c) It is the policy of the Federal Government that the full objectives of this Act be attained no later than the end of the fifth calendar year after its enactment, and toward this end the Full Employment and Production Programs submitted to the Congress by the President shall include his or her specific quantitative and qualitative targets spelling out these objectives, and the local job councils shall spell out similar quantitative and qualitative targets for their respective geographical areas.~~

~~NATIONAL INSTITUTE FOR FULL EMPLOYMENT~~

~~SEC. 9. (a) The Congress hereby recognizes that (1) in the absence of genuine full employment, as defined in this Act, many Federal policies and programs have been based on the presumption of the continuing lack of suitable employment opportunities for large numbers of people able and willing to work, and (2) to carry out their functions under this Act, the President, the Secretary of Labor, the local planning councils, the community boards, the Job Guarantee Offices, the Full Employment Service, and the Congressional Joint Economic Committee need the support of long-range, continuing, serious, and objective studies of the many changes required in such Federal policies and programs to gear them more closely to the Full Employment and Production Program, its continuing adjustment and improvement, and its implementation.~~

~~(b) To develop and administer a long-range program of such studies, there is hereby established a National Institute for Full Employment (hereinafter referred to as the "Institute") within the Department of Labor, under a director to be appointed by the Secretary of Labor, and to operate in continuing consultation with a National Commission for Full Employment Policy Studies.~~

~~(c) The Director of the Institute shall—~~

~~(1) serve for a term of three years but shall be removable, with or without cause, by the Secretary;~~

~~(2) be compensated at the rate provided for grade 18 of the General Schedule set forth in section 5332 of title 5, United States Code. The position created by this subsection shall be in addition to the number of positions placed in grade 18 of the General Schedule under section 5108 of title 5, United States Code;~~

~~(3) appoint a Deputy Director of the Institute; and~~

~~(4) appoint, for terms not to exceed three years, without regard to the provisions of title 5 of the United States Code governing appointment in the competitive service and may compensate without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates, such technical or professional employees of the Institute as he deems necessary to accomplish its functions and also appoint and compensate without regard to such provisions not to exceed one fifth of the number of full time, regular technical or professional employees of the Institute.~~

~~(d) The National Commission for Full Employment Policy Studies shall—~~

~~(1) be composed of fifteen members, which shall~~

~~be broadly representative of labor, business, education, the social and natural sciences, the humanities, local planning councils, community boards, the professions, and the general public and which shall include the Chairman of the Council of Economic Advisors as an ex officio member. The members shall be appointed by the Secretary for terms of four years and shall serve at the pleasure of the Secretary;~~

~~(2) be provided an executive secretary and other needed staff by the Secretary. The Secretary shall also pay the members of the Commission per diem, travel, and other necessary expenses, together with compensation at a rate not exceeding $100 per day while performing the business of the Commission;~~

~~(3) meet at least once every three months and at such other times as requested by the Director or the Secretary;~~

~~(4) choose a Chairman and such other officers as required to perform its business;~~

~~(5) advise and consult with the Director in respect to all programs and activities conducted pursuant to this section;~~

~~(6) regularly consult with the Council of Economic Advisors; and~~

~~(7) perform such other functions as are assigned by the Secretary or by the Director.~~

~~(c) The Institute is authorized and directed to make, or have made through grants to or contracts with individual researchers and private or public research organizations, universities, and other Government agencies, studies that shall include, but need not be limited to, such subjects as—~~

~~(1) the policies and programs needed to reduce whatever inflationary pressures may result from full employment, to manage any such inflationary pressures through appropriate fiscal policies and indirect and direct controls, and to protect the weaker groups in society from whatever inflationary trends cannot be avoided or controlled;~~

~~(2) the identification of human potentialities that are hidden, undeveloped, or underdeveloped because of the lack of suitable job opportunities, encouragement, education, or training and of various ways of releasing such potentialities;~~

~~(3) the forms of education and training needed to help provide people with the skills, knowledge, and values required by existing employment opportunities and technologies and needed to assist in developing such new types of goods, services, technologies, and employment opportunities as may better meet human needs;~~

~~(4) the policies and programs needed to substantially eliminate substandard employment, wages, and working conditions and the techniques for establishing standards for employment, wages, and working conditions in accordance with changing levels of national output and resources, and regional variations in output, resources, and other relevant factors;~~

~~(5) the improvement of the quality of employment, in both the private and the public sectors, in terms of (a) satisfactions for employees, (b) the efficiency and productivity of work done, and (c) the satisfactions of clients for and consumers of the goods or services provided;~~

~~(6) such policies and programs as may be needed to enable small and independent business enterprises to benefit from the provisions of this Act and protect them against any unfavorable consequences that may result from actions taken to implement it;~~

~~(7) alternative organizational forms and operating methods for the local planning councils mandated under section 4, as well as additional methods of encouraging participatory and decentralized planning of employment policies and programs;~~

~~(8) the standards and criteria to be used by the~~

~~local planning councils (pursuant to section 4(b)(2)) to monitor and evaluate programs under this Act;~~

~~(9) the problems of the special priority individuals and groups referred to in section 5(d)~~;

~~(10) the integration of existing programs of welfare assistance, income maintenance, and unemployment compensation with the payments made to people under section 6 of this Act~~;

~~(11) improved methodologies for conducting studies in all such areas, with special attention to the methodological problems involved in utilizing skills and techniques that may transcend established disciplinary boundaries; and~~

~~(12) a comprehensive program for such economic and social indicators, both quantitative, and qualitative, as may be needed for the continuous and objective monitoring of basic economic and social trends in the performance, structure, and environment of the American economy and society~~.

~~(f) In developing this program the Institute shall encourage divergent approaches to each area of policy study, shall keep the local planning councils informed on the nature of research in process and shall disseminate widely the results of all completed research.~~

~~GENERAL PROVISIONS~~

~~Nondiscrimination~~

~~Sec. 10. (a) No person in the United States shall on the ground of sex, age, race, color, religion, or national origin be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with funds made available under this Act.~~

~~Labor Standards~~

~~(b) (1) All laborers and mechanics employed by contractors or subcontractors in any construction, alternation, or repair including painting and decorating or projects, building, and works which are federally assisted under this Act, shall be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary in accordance with the Davis-Bacon Act, as amended (40 U.S.C. 276-276a-5). The Secretary of Labor shall have, with respect to such labor standards, the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 (15 F.R. 3176; 64 Stat. 1267) and section 2 of the Act of June 1, 1934, as amended (48 Stat. 948, as amended; 40 U.S.C. 276 (c))~~.

~~(2) The Job Guarantee Office shall not enter into any agreement under section 5 of the Act nor shall it develop any project for the reservoir of public service and private em-~~

~~ployment projects until it has determined that such agreement or project shall provide—~~

~~(A) that appropriate standards for the health, safety, and other conditions applicable to the performance of work and training on any project are established and will be maintained;~~

~~(B) appropriate workmen's compensation protection; and~~

~~(C) assurances that the project will not result in the displacement of employed workers or impair existing contracts for services or result in the substitution of Federal for other funds in connection with work that would otherwise be performed.~~

~~DEFINITIONS~~

~~SEC. 11. For the purposes of this Act—~~

~~(1) "Adult Americans" refers to all citizens and permanent residents of the United States who are sixteen years of age or older, plus such younger age groups as may be expressly included by local, State, or Federal law and implemented by administrative regulations under this Act.~~

~~(2) "Full employment" is a situation under which there are useful and rewarding employment opportunities for all adult Americans able and willing to work.~~

~~(3) "Able and willing to work" means possessing the~~

~~capacity and motivation to perform for pay productive tasks creative of a useful social product.~~

~~(4) "Opportunity" refers to an available and feasible choice.~~

~~(5) "Fair rates of compensation" refers to remuneration at wages reflecting regional levels of compensation, statutory minimum wages, or those wages established by prevailing collective bargaining agreements, whichever is highest, and under working conditions consistent with trade union or prevailing standards, whichever is higher.~~

~~(6) "Secretary" refers to the Secretary of Labor.~~

~~AUTHORIZATIONS~~

~~SEC. 12. There is hereby authorized to be appropriated for the fiscal year ending on June 30, 1976, and for each succeeding fiscal year such sums as may be needed to carry out the various sections of this Act.~~

That this Act and the following table of contents may be cited as the "Full Employment and Balanced Growth Act of 1976":

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GENERAL FINDINGS

SEC. 2. (a) The Congress finds that the Nation has suffered substantial and increasing unemployment and underemployment, over prolonged periods of time, imposing numerous economic and social costs. Such costs include the following:

(1) The Nation is deprived of the full supply of goods and services, the full utilization of labor and

capital resources, and the related increase in individual income and well-being that would exist under conditions of genuine full employment.

(2) Insufficient production is available to meet pressing national priorities.

(3) Workers are deprived of the job security, income, skill development, and productivity necessary to maintain and advance their standards of living.

(4) Business and industry are deprived of the production, sales, capital flow, and productivity necessary to maintain adequate profits, create jobs, and contribute to meeting society's economic needs.

(5) The Nation is exposed to social, psychological, and physiological costs and traumas, including disruption of family life, loss of individual dignity and self-respect, and the proliferation of physical and psychological illnesses, drug addiction, crime, and social conflict.

(6) Federal, State, and local government economic activity is undermined as government budget deficits occur because tax revenues fall and expenditures rise for unemployment compensation, public assistance, and other recession-related services in the areas of criminal justice, drug addiction, and physical and mental health.

(b) The Congress further finds:

(1) High unemployment often increases inflation by diminishing labor training and skills, underutilizing capital resources, reducing the rate of productivity advance, increasing unit labor costs, reducing the general supply of goods and services and thereby generating cost-push inflation. In addition, modern inflation has been due in large measure to errors in national economic policy, including erratic monetary policy, inadequate energy and food policies, and ineffective policies to maintain competition in the private sector.

(2) Although necessary for sound economic policy, aggregate monetary and fiscal policies are inadequate by themselves to achieve full employment production and to restrain inflation. Such policies must be supplemented by more direct private and public measures to create employment and reduce inflation.

(3) Genuine full employment has not been achieved, in part, because explicit short- and long-term national economic goals and priorities have not been established by the President, the Congress, and the Federal Reserve. Moreover, public and private economic policies have not been organized and coordinated to achieve national goals and priorities.

(4) Increasing job opportunities and full employ-

ment make a major contribution to the abolition of discrimination based upon sex, age, race, color, religion, national origin, and other improper factors.

(c) The Congress further finds that an effective full employment and balanced growth policy should (1) be based on the development of explicit economic goals and policies involving the President, the Congress, and the Federal Reserve, as well as State and local governments, with full use of the resources and ingenuity of the private sector of the economy, and (2) include programs specifically designed to reduce high unemployment due to recessions, and to reduce structural unemployment within regional areas and among particular labor force groups.

(d) The Congress further finds that full employment and balanced growth are important national requirements that will promote the economic security and well-being of all our citizens.

TITLE I—ESTABLISHMENT OF GOALS, PLANNING, AND GENERAL ECONOMIC POLICIES

STATEMENT OF PURPOSE

SEC. 101. It is the purpose of this title to declare the general policies of this Act, to provide an open process under which annual economic goals are proposed, reviewed, and established, to provide for the development of a long-range Full Employment and Balanced Growth Plan, to provide *for economy in government measures, to ensure that monetary, fiscal, anti-inflation, and general economic policies are used to achieve the annual economic goals and support the goals and priorities of the Full Employment and Balanced Growth Plan, and generally to strengthen and supplement the purposes and policies of the Employment Act of 1946.*

DECLARATION OF POLICY

SEC. 102. (a) Section 2 of the Employment Act of 1946 (15 U.S.C. 1021) is amended to read as follows:

"DECLARATION OF POLICY

"SEC. 2. (a) The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means, consistent with its needs and obligations and other essential national policies, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions which promote balanced growth and useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote full employment, production, and purchasing power.

"(b) The Congress declares and establishes the right of all adult Americans (sixteen years of age or older) able,

willing, and seeking work to opportunities for useful paid employment at fair rates of compensation.

"(c) The Congress further declares that inflation is a major national problem requiring improved government policies relating to food, energy, improved fiscal and monetary management, economy in government, the reform of outmoded government rules and regulations, the correction of structural defects in the economy that prevent or seriously impede competition in private markets, and other measures."

ECONOMIC GOALS AND THE ECONOMIC REPORT OF THE PRESIDENT

SEC. 103. Section 3(a) of the Employment Act of 1946 is amended to read as follows:

"SEC. 3. (a) The President shall transmit to the Congress not later than January 20 of each year an economic report (hereinafter called the 'Economic Report') setting forth for each year—

"(1) current and forseeable trends in the levels of employment, production, and purchasing power and a review and analysis of economic conditions affecting these economic trends in the United States;

"(2) annual numerical goals for employment, production, and purchasing power that are designed to achieve balanced growth and full employment of the

Nation's human and capital resources as promptly as possible;

"(3) a numerical long-term full employment goal which is (A) consistent with the minimum level of frictional unemployment necessary for efficient job search and mobility in the labor force, and (B) consistent with the aggregate long-term economic goals and priorities set forth in the Full Employment and Balanced Growth Plan required under section 3A; and

"(4) the programs and policies for carrying out the policy declared in section 2 of this Act, as well as the numerical economic goals of paragraph (2) of this subsection, together with such recommendations for legislation as the President deems necessary or desirable in order to achieve full employment and balanced growth as promptly as possible.".

FULL EMPLOYMENT AND BALANCED GROWTH PLAN

SEC. 104. The Employment Act of 1946 is amended by adding after section 3 the following new section:

"FULL EMPLOYMENT AND BALANCED GROWTH PLAN

"SEC. 3A. (a) In conjunction with the first Economic Report after enactment of this section, or within ninety days after the enactment of this section, whichever may come earlier, and thereafter in conjunction with each annual Economic

Report, the President shall transmit to the Congress a proposed Full Employment and Balanced Growth Plan, prepared with the assistance of the Council of Economic Advisers, and in consultation with the Office of Management and Budget. The Plan shall propose, in quantitative and qualitative terms, and for the number of years feasible, long-term national goals related to full employment, production, purchasing power, and other essential priority purposes, and the major policies and programs, including recommendations for legislation, to achieve such goals and priorities. In developing the goals, the President shall take into account the level and composition of each factor needed to maintain economic balance and full resource use and to meet priority needs.

"(b) The Full Employment and Balanced Growth Plan shall set forth the foreseeable trends in economic and social conditions, provide estimates of the unmet economic and social needs of the Nation, and identify the human, capital, and national resources available and needed for the achievement of the economic and related social goals and priorities established in the Full Employment and Balanced Growth Plan.

"(c) The Full Employment and Balanced Growth Plan shall contain long-term economic goals as follows—

"(1) full employment goals set at the number of jobs to be provided for adult Americans in order

to reduce unemployment to the minimum level of frictional unemployment consistent with efficient job search and labor mobility;

"(2) full production goals set at the levels of output estimated to be yielded by achievement of the full employment goals as defined above, with expected improvements in productivity; and

"(3) full purchasing power goals set at levels estimated to be necessary for attaining and maintaining full employment and production while contributing to an equitable distribution of purchasing power.

"(d) In carrying out the provision of paragraph (1) of subsection (c), the full employment goal shall be consistent with a rate of unemployment not in excess of 3 per centum of the adult Americans in the civilian labor force, to be attained as promptly as possible, but within not more than four years after the enactment of the Full Employment and Balanced Growth Act of 1976. Within one year of the date of enactment of the Full Employment and Balanced Growth Act of 1976, the President shall review the full employment goal and timetable required by this section and report to Congress on any obstacles to its achievement and, if necessary, propose corrective economic measures to insure that the full employment goal and timetable are achieved.

"Priorities, Policies, and Programs

"(e) To contribute to the achievement of the general economic goals established in sections 3(a)(2) and 3A(c) of this Act, the Full Employment and Balanced Growth Plan shall propose priority policies and programs that comprise a full employment program that provides productive nonwasteful jobs and that reorder national priorities and employ the jobless in the production of goods and services which add to the strength of the economy, the wealth of the Nation, and the well-being of the people. Such policies and programs shall not be set forth in the programmatic detail developed by specialized Federal agencies, and by others in the public and private sectors, but only sufficiently to furnish an integrated perspective of our needs and capabilities and as a long-run guide to optimum private, Federal, State, and local government action. Priority policies and programs to support full employment and balanced growth shall initially include—

"(1) development of energy, transportation, food, small business, and environmental improvement policies and programs required for full employment and balanced economic growth, and required also to combat inflation by meeting full economic levels of demand;

"(2) the quality and quantity of health care, education and training programs, child care and other human

services, and housing, essential to a full economy and moving gradually toward adequacy for all at costs within their means;

"(3) Federal aid to State and local governments, especially for public investment and unemployment related costs;

"(4) national defense and other needed international programs; and

"(5) such other priority policies and programs as the President deems appropriate.

"(f) The President shall establish procedures to insure that members of the Cabinet, relevant regulatory agencies, other relevant officers of the executive branch, and the Chairman of the Advisory Committee on Full Employment and Balanced Growth have an opportunity to review and make recommendations to the President prior to his or her submission of the Full Employment and Balanced Growth Plan to the Congress. The annual reports of departments and agencies shall include reports on any actions and studies undertaken related to the implementatiton of the Full Employment and Balanced Growth Plan.

"(g) At the time of the submission of the proposed Full Employment and Balanced Growth Plan to the Congress, the President shall transmit copies of the Plan to the Governor of each State and to other appropriate State and

local officials. Within sixty days after the submission to Congress of the proposed Full Employment and Balanced Growth Plan, the Governor of each State may submit to the Joint Economic Committee a report containing findings and recommendations with respect to the proposed Plan. Any such report submitted by a Governor shall include the views and comments of citizens within the State, after public hearings have been held within the State. A Governor may, if he or she so desires, submit at any time to the Joint Economic Committee such additional reports or information in respect to matters placed by this Act within the responsibility of the Joint Economic Committee as the Governor deems advisable."

ECONOMY IN GOVERNMENT

SEC. 105. (a) The Congress finds and declares that widespread duplication and contradiction among Federal departments and agencies, the failure to establish long-term priorities, lack of adequate information on the impact of Federal regulations and programs, and the lack of a process for developing more efficient alternatives for achieving the Nation's priorities are impeding the Federal Government in efficiently implementing full employment and balanced growth policies. The Congress further declares that genuine efficiency in Government requires time and planning. Accordingly, it is the purpose of this section to utilize the com-

prehensive planning framework established by section 104 to improve the efficiency and economy of the Federal Government.

(b) In carrying out this section, the President shall, in conjunction with the submission of each Full Employment and Balanced Growth Plan, submit proposals for improving the efficiency and economy of the Federal Government, including, but not necessarily limited to—

(1) a review of existing Government rules and regulations to determine if they still serve a public purpose and are properly designed; and

(2) an annual evaluation of 20 per centum of the dollar volume of existing Federal programs which are in effect each year, and the submission to Congress of a formal analysis of the economic and social impact and value of each program.

FISCAL AND MONETARY POLICIES

SEC. 106. (a) The Employment Act of 1946 is amended by inserting after section 3A, as added by this Act, the following new section:

"FISCAL AND MONETARY POLICIES

"SEC. 3B. (a) The President's Budget and Economic Report shall be consistent with the Full Employment and Balanced Growth Plan, and the Economic Report shall set forth for each year the following:

"(1) The level and composition of Federal expenditures, measured against estimated capabilities at full employment and production, necessary to support the annual economic goals proposed in section 3 and to support the Full Employment and Balanced Growth Plan, taking into account the role of the private sector and of State and local governments in supporting these purposes. The President shall also make a determination of the extent to which the use of aggregate fiscal and monetary policy, without the supplementary employment policies provided in the Full Employment and Balanced Growth Act of 1976, will achieve the production, employment, purchasing power, and priority goals required in sections 3 and 3A. Whenever the economy is operating at full production and employment, or subjected to excessive overall strain, the general principle to be followed is that priority expenditures established in section 3A (e) shall not in general be reduced, allowing for some variations for countercyclical purposes, so long as it is feasible to reduce relatively less important expenditures, or to resort to means set forth in paragraph (2) below.

"(2) Federal tax policy consistent with expenditure levels in paragraph (1) of this subsection necessary to (A) balance the Federal budget or create a surplus under conditions of full production, employment and purchasing power, (B) restrain excessive economic activity and inflation when

total demand threatens to exceed the Nation's capabilities at full employment, (C) avoid fiscal drag upon the economy during any periods of substantial economic slack, and (D) contribute to the needed level and distribution of purchasing power.

"(3) A monetary policy designed to assure such rate of growth in the Nation's money supply, such interest rates, and such credit availability, including policies of credit reform, allocation, and international capital flows as are conducive to achieving and maintaining the full employment, production, purchasing power and priority goals specified in sections 3 and 3A.

"(b) The Board of Governors of the Federal Resesrve System shall transmit to the President and the Congress, within fifteen days after the transmission of the Economic Report or the Full Employment and Balanced Growth Plan, whichever may come earlier, an independent statement setting forth its intended policies for the year ahead with respect to its functions, the extent to which these policies will support the achievement of the goals in section 3 and section 3A, and a full justification for any substantial variations from the President's goals and recommendations. If the President determines that the Board's policies are inconsistent with the achievement of the goals and policies proposed under this Act, the President shall make recommenda-

tions to the Board and to the Congress to insure closer conformity to the purposes of this Act."

ANTI-INFLATION POLICIES

Sec. 107. (a) Section 3 of the Employment Act of 1946 is amended by adding at the end thereof the following:

"(d) The Economic Report shall each year contain a comprehensive set of anti-inflation policies, including, but not necessarily limited to—

"(1) a comprehensive information system to monitor and analyze inflationary trends in individual economic sectors, including information on the international sector, so that the President and Congress can be alerted to developing inflation problems and bottlenecks;

"(2) the use of monetary and fiscal policy geared to the capabilities of the economy operating at full employment as provided in section 3B;

"(3) programs and policies in the Full Employment and Balanced Growth Plan for increasing the supply of goods, services, labor, and capital in structurally tight markets, with particular emphasis on increasing the supply of food and energy;

"(4) provision for an export licensing mechanism for food and other critical materials when the national well-being is threatened because projected supplies are inadequate to meet domestic needs without drastically

increasing prices, and the establishment of stockpile reserves of food and other critical materials in order to meet emergencies such as floods and famines and to maintain reasonable price stability and adequate farm income;

"(5) encouragement to labor and management to increase productivity within the national framework of full employment through voluntary arrangements in industries and economic sectors;

"(6) recommendations to strengthen and enforce the antitrust laws and such other recommendations as are necessary to increase competition in the private sector; and

"(7) recommendations for administrative and legislative actions to promote reasonable price stability if situations develop that seriously threaten national price stability.

COUNCIL OF ECONOMIC ADVISERS

SEC. 108. (a) The second sentence of section 4(a) of the Employment Act of 1946 is amended by inserting "full" immediately after "promote".

(b)(1) Section 4(c)(1) of such Act is amended by inserting immediately before the semicolon a comma and the following: "and the Full Employment and Balanced Growth Plan".

(2) Section 4(c)(4) of such Act is amended by inserting "full" immediately after "maintain".

(c)(1) Section 4(e)(1) of such Act is amended by inserting immediately before the semicolon a comma and the following: "and shall consult with the Advisory Committee established under section 6."

(2) Section 4(e) of such Act is amended by striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon, and by adding after such paragraph (2) the following:

"(3) In this connection, the Council is authorized and directed to seek and obtain the cooperation of the various executive and independent agencies in the development of specialized studies essential to its responsibilities."

ADVISORY COMMITTEE ON FULL EMPLOYMENT AND BALANCED GROWTH

SEC. 109. The Employment Act of 1946 is amended by adding at the end thereof the following new section:

"ADVISORY COMMITTEE ON FULL EMPLOYMENT AND BALANCED GROWTH

"SEC. 6. (a) To furnish advice and assistance to the Council of Economic Advisers in the preparation and review of the Economic Report and Full Employment and Balanced Growth Plan, there is established an Advisory Committee on

Full Employment and Balanced Growth, which shall consist of—

"(1) four members appointed by the President;

"(2) four members appointed by the Speaker of the House of Representatives; and

"(3) four members appointed by the President pro tempore of the Senate.

"(b) The Committee shall elect a Chairman, and shall meet at the call of the Chairman, but not less than twice a year. The members of the Advisory Committee shall be appointed for terms of two years from among representatives of labor, industry, agriculture, consumers, and the public at large, who are especially competent by virtue of background and experience to furnish advice to the Council on the views and opinions of broad segments of the public on matters involved in the formulation and implementatiton of goals and policies for full employment and balanced growth.

"(c) Each member of the Advisory Committee shall be entitled to be compensated at a rate equal to the per diem equivalent of the rate for an individual occupying a position at level III of the Executive Schedule under section 5314 of title 5, United States Code, when engaged in the actual performance of his or her duties as such a member, and each member shall be entitled to reimbursement for travel, sub-

sistence, and other necessary expenses incurred in the performance of his or her duties.

"(d) The Advisory Committee is authorized to establish regional, industry, and special advisory subcommittees to furnish advice and assistance to it. Each such subcommittee shall consist of at least one member of the Advisory Committee and schall be broadly representative of the particular region or industry, including business, labor, consumer interests, and other interested groups.

"(e) The Chairman of the Council of Economic Advisers shall furnish the Advisory Committee with such personnel, facilities, and services as he or she deems necessary to enable th Advisory Committee to perform its functions under this Act.".

TITLE II—COUNTERCYCLICAL, STRUCTURAL, AND YOUTH EMPLOYMENT POLICIES

STATEMENT OF PURPOSE

SEC. 201. It is the purpose of this title to establish supplementary employment policies to close the employment gap, if one should exist, between the levels of employment achieved through aggregate monetary and fiscal policy and the employment goals established in sections 3 and 3A of the Employment Act of 1946. Accordingly, this title establishes a system of comprehensive and flexible employment policies to create jobs in both the private and *public sectors of the economy that encourages the optimum contribution of the private sector and State and local governments toward the achievement of the goals and purposes of this Act. These supplementary employment policies shall vary according to economic conditions and the other actions taken under this Act, but shall have the broad objective of reducing cyclical, structural, regional, and youth unemployment, and unemployment due to discrimination. It is also the purpose of this title to establish a Full Employment Office within the Department of Labor to use special means for training and providing employment for those people who are otherwise unable to find employment. It is the further purpose of this title to mandate improved integration of income maintenance programs and full employment policies.*

COUNTERCYCLICAL EMPLOYMENT POLICIES

SEC. 202. (a)(1) The Congress finds and declares that—

(A) the Nation has been unprepared to promptly implement employment policies during periods of economic downturn and resultant high unemployment;

(B) existing policies are so diffused and fragmented at all levels of government that it has been impossible to implement a comprehensive countercyclical employment program in a coordinated manner; and

(C) the lack of a coherent, flexible, countercyclical

employment policy reduces the prospects of the Nation solving economic and related social problems which threaten fundamental national interests and objectives, including those specified by this Act.

(2) It is the purpose of this section to require the development of a coherent and flexible countercyclical employment policy, creating jobs in both the private and public sectors that are valuable to States, local communities, and the Nation, and thereby reducing employment gaps that may remain despite the appropriate implementation of other provisions of this Act.

(b)(1) To carry out the provisions of this section, the President shall within ninety days after the date of enactment of this Act transmit to the Congress a comprehensive proposal, together with such legislation as is necessary, which shall establish on a permanent basis the range of supplementary employment policies and programs necessary to reduce high unemployment arising from cyclical movements in the economy. The countercyclical action provided for in this section relates to periods of high unemployment, regardless of the stage of the business cycle.

(2) In establishing the component parts of such a comprehensive proposal, and making a determination of the role of each, the President should consider the following programmatic entities—

(A) countercyclical public service employment;

(B) accelerated public works, including the development of standby public works projects;

(C) State and local countercyclical grant programs as specified in section 203;

(D) the levels and duration of unemployment insurance;

(E) skill training in both the private and public sectors, both as a general remedy, and as a supplement to unemployment insurance;

(F) youth employment programs as specified in sector 205;

(G) a community development program to provide employment in activities of value to the States, local communities, and the Nation; and

(H) augmentation of other employment and manpower programs that would prove helpful in meeting high levels of unemployment from cyclical causes.

(c) To insure that the component parts of the countercyclical proposal establishes an integrated and flexible program, the President shall—

(1) utilize existing employment and training mechanisms as appropriate;

(2) provide for advance planning for counter-

cyclical employment programs among the Federal Departments and agencies;

(3) provide for an automatic trigger or set of coordinated triggers that would implement the program during a period of rising unemployment, and phase out the program when unemployment is appropriately reduced;

(4) insure that allocation of employment assistance takes into account the severity and geographic distribution of unemployment, and the special needs of the unemployed groups within the labor force;

(5) provide for a well balanced combination of job creation and related activities in both the private and public sectors of the economy; and

(6) incorporate effective transitional mechanisms to facilitate individuals assisted under programs developed pursuant to this section to return promptly to regular private and public employment as the economy recovers.

COORDINATION WITH STATE AND LOCAL GOVERNMENT AND PRIVATE SECTOR ECONOMIC ACTIVITY

SEC. 203. (a) As an integral part of the comprehensive countercyclical employment policies established under section 202, the President shall set forth programs and policies to facilitate harmonious economic action among the Federal

Government, regions, States and localities and the private sector to promote the (1) achievement of the goals and priorities of this Act and the Employment Act of 1946, and (2) an economic environment in which State and local governments and private sector economic activity and employment will prosper and essential services will be maintained.

(b) As a primary effort to meet the requirements of this section, the President shall within ninety days after the date of enactment of this Act transmit to the Congress legislation creating a permanent, countercyclical grant program that will serve to stabilize State and local budgets during periods of recession and high unemployment. In formulating this proposal, the President shall endeavor to meet criteria that establish a program (1) funded to take into account total State and local expenditures and the national unemployment rate; and (2) automatically implemented when the national unemployment rate exceeds a specified rate.

REGIONAL AND STRUCTURAL EMPLOYMENT POLICIES

SEC. 204. (a)(1) The President shall within one hundred and eighty days after the date of enactment of this Act transmit to Congress a compresensive regional and structural employment proposal, including such legislation as necessary, designed to reduce the chronic underutilization of *human and capital resources in certain areas of the country and in groups within the labor force. In formulating the regional components of such a proposal, the President shall encourage private sector production and employment to locate within depressed regions, inner cities, and rural areas with substantial unemployment. The President's regional employment proposal shall also include an analysis of the extent to which Federal Government tax, expenditure, and employment policies have influenced the movement of people, jobs, and industry from chronic high unemployment regions and areas, and proposals designed to correct Federal policies that have an adverse economic impact upon such regions and areas.*

(2) In formulating the structural components of such an employment program, the President shall utilize existing employment and training mechanisms and other existing programs, as appropriate, and such other measures as necessary.

(b) To further meet the requirements of this section, the President shall transmit to the Congress, within one hundred and eighty days after the date of enactment of this Act, legislation providing an institutional means designed to encourage (1) public and private investment in economically depressed regions, inner cities, economic sectors, and rural areas with substantial unemployment; and (2) provide an

alternative source of capital funds for local and State governments to finance public facilities. In formulating the legislation required by this section, the President shall include provision for—

(1) long-term loans at low rates of interest no higher than the average rate of long-term Treasury borrowings plus service costs;

(2) capitalization through public stock and bond subscriptions, stock purchases by the State governments, local governments, and businesses that benefit from the program, and financial assistance from the Federal Government; and

(3) criteria setting priorities for assistance to State and local government and businesses, with special attention to areas with unemployment rates consistently and significantly in excess of the national average, to achieve the objective of increasing employment in such areas, and increasing total employment.

YOUTH EMPLOYMENT POLICIES

SEC. 205. (a) The Congress finds and declares that—

(1) serious unemployment and economic disadvantage exist among youths, this group constitutes a substantial portion of the Nation's unemployment, and this significantly contributes to crime, drug addiction, and other social and economic problems;

(2) many youths have special employment needs and problems which, if not promptly addressed, will substantially contribute to more severe unemployment problems in the long run;

(3) a significant number of youths in certain areas even in the best of economic circumstances do not have adequate access to employment opportunities providing effective entry into the labor force; and

(4) existing employment programs for youth are fragmented and inadequate, and the special needs and problems of youth unemployment require the development of a permanent, comprehensive youth employment program which will meet the job needs of youth.

(b) To meet the requirements of subsection (a), the President shall transmit to Congress within ninety days after the date of enactment of this Act legislation creating a comprehensive youth employment program, which—

(1) utilizes the resources and facilities of existing youth employment and training programs that are designed to provide job opportunities for youths,

(2) provides for other policies and programs necessary to provide employment for youths, and

(3) contributes to carrying out the policies of this Act and the Employment Act of 1946.

(c) In formulating such a program, the President shall include provisions designed to—

(1) fully coordinate youth employment activities with other employment and manpower programs;

(2) develop a smoother transition from school to work by fostering a more effective partnership between educational and employment institutions, such as businesses, employer associations, and labor unions;

(3) prepare disadvantaged and other youths with employability handicaps for regular self-sustaining employment through education, training, medical services, counseling, and other support activities;

(4) develop realistic methods for combining training with work, including apprenticeship and on-the-job training in the private sector; and

(5) provide job opportunities for youths in a variety of tasks, including conservation, public service activities, inner city cleanup and rehabilitation, and other jobs of value to States, local communities, and the Nation.

FULL EMPLOYMENT OFFICE AND RESERVOIRS OF EMPLOYMENT PROJECTS

SEC. 206. (a) In order to insure that full employment is achieved under this Act, the President, through the Secretary of Labor, shall develop policies, procedures, and pro-

grams to provide employment opportunities to adult Americans able, willing, and seeking to work but who, despite a serious effort to obtain employment, are unable to do so in the general economic environment, or through any of the other provisions of this Act.

(b) There is established within the Department of Labor a Full Employment Office to assist the Secretary of Labor in providing the employment opportunities required under subsection (a). Under the supervision of the Secretary of Labor, the Office shall be phased in consistent with subsection (d) of this section.

(c) In meeting the responsibilities to provide job opportunities under subsection (a) and after full utilization of the Comprehensive Employment and Training Act of 1973, the Secretary of Labor shall, as appropriate—

(1) assure that counseling, training, and other support activities necessary to prepare persons willing and seeking work for employment is provided under the Comprehensive Employment and Training Act of 1973, including the use of section 110 of such Act when necessary; and

(2) refer persons able, willing, and seeking to work to job opportunities in the private and public sectors through the existing public employment placement facilities and through the United States Employment Serv-

ice, including job opportunities in positions drawn from sections 202, 204, and 205 of this Act.

(d) Insofar as adult Americans able, willing, and seeking work are not provided with job opportunities under section 206(c) or otherwise under this Act, such opportunities shall be provided by the President through reservoirs of federally operated public employment projects and private nonprofit employment projects approved by the Secretary of Labor. The number and nature of such reservoirs of employment projects shall be determined in conjunction with the policies and programs of the Full Employment Office established under subsection (b) and the other job creation provisions of this Act. The provisions of this subsection shall be phased in by the President, in conjunction with the annual employment recommendations required under section 3 of the Employment Act of 1946, in order to achieve a rate of unemployment not in excess of 3 per centum as established by section 3A(d) of such Act.

(e) The Secretary, in carrying out the provisions of this section, shall establish such regulations as he or she deems necessary. Such regulations shall include provisions for—

(1) an initial determination by the Full Employment Office of the job seekers' ability to be employed at certain types and duration of work so that he or she

may be appropriately referred to jobs, training, counseling, and other supportive service;

(2) compliance with the nondiscrimination provisions of this Act in accordance with section 401;

(3) such priority criteria as may be appropriate to establish the order in which persons able, willing, and seeking to work are provided jobs under this section, so that such persons who most need employment are given first consideration and, in determining the priority order, the Secretary shall consider such factors as duration of unemployment, number of people economically dependent upon any such person, expiration of unemployment insurance, household income, and any other factors essential to determining employment need;

(4) appropriate eligibility criteria to limit access to the program authorized under subsection (d), including but not limited to such criteria as household income, duration of unemployment, and refusal to accept or hold a job which pays whichever is the highest of (A) the prevailing wage, as determined by the Secretary of Labor, for that type of work in the labor market in which such job occurs, or (B) fair rates of compensation as determined under section 402 of this Act; and

(5) such administrative appeal procedures as may

be appropriate to review the initial determination of the abilities of persons willing, able, and seeking to work under clause (1) of this subsection and the employment need and eligibility under clauses (3) and (4) of this subsection.

Compliance with the requirements of clause (4) of this subsection relating to a person's eligibility for assistance may be satisfied by an affidavit submitted by persons seeking assistance. If such person knowingly provides false information in any such affidavit, he or she shall be ineligible for any assistance under this section and shall, in addition, be subject to prosecution under section 1001 of title 18, United States Code.

INCOME MAINTENANCE AND FULL EMPLOYMENT POLICIES

SEC. 207. (a) Congress finds and declares that to achieve the goals of full employment and balanced growth it is essential that the employment policies prescribed by this Act and the Employment Act of 1946 give adequate attention to (1) providing quality jobs that improve the work environment, strengthen income and eliminate substandard earnings; (2) improving and integrating existing public and private income maintenance programs with the full employment policies of this Act and the Employment Act of 1946; and (3) substituting work for income maintenance *to the maximum extent feasible, taking account of the need for adequate income maintenance among those who cannot be brought within the full employment policy.*

(b) To meet the requirements of this section, the President shall within ninety days after the date of the enactment of this Act transmit to Congress a proposal, together with such legislation as is necessary, analyzing the relationship of income maintenance needs, existing income maintenance programs, and the full employment policies required by this Act and the Employment Act of 1946, and make recommendations on how the income maintenance and employment policies can be integrated to insure that employment is substituted for income maintenance to the maximum extent feasible.

TITLE III—POLICIES AND PROCEDURES FOR CONGRESSIONAL REVIEW

STATEMENT OF PURPOSE

SEC. 301. The purposes of this title are—

(1) to establish procedures for congressional action and review with respect to the Economic Report, the Full Employment and Balanced Growth Plan, the report of the Board of Governors of the Federal Reserve System, and the other policies and provisions of this Act and the Employment Act of 1946; and

(2) to establish a Division of Full Employment and Balanced Growth within the Congressional Budget Office.

GENERAL CONGRESSIONAL REVIEW

SEC. 302. (a) To provide for comprehensive economic and employment policies to meet the objectives of this Act and the Employment Act of 1946, and to provide Congress with guidance on these matters, the appropriate committees of the Congress shall review and revise, to the extent deemed desirable, the economic goals, priorities, policies, and programs proposed under such Acts by the President and the Board of Governors of the Federal Reserve System. The Congress shall initiate or develop such legislation as it deems necessary to implement these proposals and objectives, after such modification in such proposals as it deems desirable. Nothing in this Act shall be construed to prevent the Congress or any of its committees from considering or initiating at any time action to implement this Act.

(b) In addition to its responsibilities under the Employment Act of 1946 with respect to the Economic Report, the Joint Economic Committee shall carry out overall review of executive branch policies under this Act, with special attention to general economic conditions, the setting of national economic goals in the Economic Report, the Full Employment and Balanced Growth Plan, and the relationship of economic policy measures to the fulfillment of the

goals and priorities established under this Act and under the Employment Act of 1946.

(c) In addition to their responsibilities under the Congressional Budget Act of 1974, the Committee on the Budget of the Senate and the Committee on the Budget of the House of Representatives shall review, in conjunction with reporting concurrent resolutions on the budget under the Congressional Budget Act of 1974, the fiscal policy, economy in government policies, and Federal budget priorities recommended by the President.

(d) The other appropriate committees of Congress shall review and report on those policies or programs implemented or submitted which relate to matters within the jurisdiction of each such committee.

CONGRESSIONAL REVIEW OF ECONOMIC GOALS IN ECONOMIC REPORT

SEC. 303. (a) In conjunction with its review of the Economic Report, and the holding of hearings on the report, as required under the Employment Act of 1946, the Joint Economic Committee shall review and analyze the annual numerical goals for employment, production, and purchasing power recommended by the President in fulfillment of section 3 of the Employment Act of 1946. Subsequent to such a review, the Joint Economic Committee shall make recommendations to the Congress on the appropriate annual nu-

merical goals for employment, production, and purchasing power, subject to the requirements of section 3A(d) of the Employment Act of 1946 relating to those periods when unemployment is to be reduced to given levels.

(b) Section 301(a) of the Congressional Budget Act of 1974 is amended—

(1) by striking out "and" at the end of clause (5);

(2) by redesignating clause (6) as clause (7); and

(3) by inserting after clause (5) the following new clause:

"(6) numerical goals for employment, production, and purchasing power; and".

(c) The second sentence of section 301(c) of the Congressional Budget Act of 1974 is amended to read as follows: "The Joint Economic Committee shall also submit to the Committees on the Budget of both Houses its recommendations as to the fiscal and monetary policies appropriate to the goals of the Employment Act of 1946. The Joint Economic Committee shall further submit to the Committees on the Budget of both Houses, in accordance with section 3 of the Employment Act of 1946, recommendations on annual numerical goals for employment, production, and purchasing power designed to achieve full employment of

the Nation's human and capital resources as promptly as possible. These recommendations shall be incorporated by the Committee on the Budget of each House in the first concurrent resolution on the budget referred to in subsection (a) reported by that committee, with modifications if necessary to fulfill the objectives of the Full Employment and Balanced Growth Act of 1976, and to meet the requirement of section 3A of the Employment Act to achieve full employment within not more than four years after the enactment of the Full Employment and Balanced Growth Act of 1976. In the event that the Committee on the Budget of either House modifies the annual numerical goals for employment, production, and purchasing power recommended by the Joint Economic Committee, that Budget Committee shall provide its reasons for such modification in the report accompanying the first concurrent resolution.

CONGRESSIONAL REVIEW OF FULL EMPLOYMENT AND BALANCED GROWTH PLAN

SEC. 304. (a) Each proposed Full Employment and Balanced Growth Plan transmitted to the Congress by the President under section 3A of the Employment Act of 1946 (hereafter in this section referred to as a "Proposed Plan") shall be referred to the Joint Economic Committee. Within sixty days after receipt by the Congress of a Proposed Plan, each standing committee of the Senate and the House of

Representatives and each joint committee of the Congress shall submit to the Joint Economic Committee a report containing its views and recommendations with respect to aspects of the Proposed Plan which relate to matters within the jurisdiction of such committee or joint committee.

(b) The Joint Economic Committee shall hold hearings for the purpose of receiving testimony from the Members of Congress, appropriate representatives of Federal departments and agencies and such representatives of the general public and interested groups as the joint committee deems advisable. The joint committee shall also consider the comments and views on the Proposed Plan which are received from State and local officials.

(c) Not later than one hundred and five days after the submission of a Proposed Plan to the Congress, the members of the Joint Economic Committee who are Members of the House of Representatives shall report to the House, and the members of the joint committee who are Members of the Senate shall report to the Senate, a concurrent resolution which shall state in substance that the Congress approves or disapproves the Proposed Plan, in whole or in part, and which may contain such alternatives to, modifications of, or additions to the Proposed Plan as the joint committee deems appropriate and in accord with the purposes of this Act and the Employment Act of 1946. The report

accompanying such concurrent resolution shall include findings and recommendations of the joint committee with respect to each of the main recommendations contained in the Proposed Plan.

(d)(1) When a concurrent resolution referred to in subsection (c) has been reported to the House of Representatives it shall at any time thereafter be in order (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the concurrent resolution. The motion shall be highly privileged and not debatable. An amendment to the motion shall not be in order, nor shall it be in order to move to reconsider the vote by which the motion is agreed to or disagreed to.

(2) General debate on any such concurrent resolution in the House of Representatives shall be in the Committee of the Whole House on the State of the Union, and shall be limited to not more than ten hours, which shall be divided equally between those favoring and those opposing the concurrent resolution. A motion further to limit debate shall not be debatable.

(3) Except to the extent specifically provided in the preceding provisions of this subsection, consideration in the House of Representatives of any such concurrent resolution and amendments thereto (or any conference report thereon) shall be governed by the Rules of the House of Representa-

tives applicable to other bills and resolutions, amendments, and conference reports in similar circumstance.

(e)(1) Debate in the Senate on a concurrent resolution referred to in subsection (c), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than ten hours. The time shall be equally divided between, and controlled by, the majority leader and the minority leader or their designees.

(2) Debate in the Senate on any amendment to any such concurrent resolution shall be limited to two hours, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution. Debate on any amendment to an amendment, and debate on any debatable motion or appeal shall be limited to one hour, to be equally divided between, and controlled by the mover and the manager of the concurrent resolution, except that in the event the manager of the concurrent resolution is in favor of any such amendment, motion, or appeal, the time in opposition thereto, shall be controlled by the minority leader or his designee. No amendment that is not germane to the provisions of the concurrent resolution shall be received. Such leaders, or either of them, may, from the time under their control on the passage of the concurrent resolution, allot additional time to any Senator during the consideration of any amendment, debatable motion, or appeal.

(3) A motion in the Senate to further limit debate is not debatable. A motion to recommit (except a motion to recommit with instructions to report back within a specified number of days, not to exceed three, not counting any day on which the Senate is not in session) is not in order. Debate on any such motion to recommit shall be limited to one hour, to be equally divided between, and controlled by, the mover and the manager of the concurrent resolution.

(4) The conference report on any such concurrent resolution shall be in order in the Senate at any time after the third day (excluding Saturdays, Sundays, and legal holidays) following the day on which such a conference report is reported and is available to Members of the Senate. A motion to proceed to the consideration of the conference report may be made even though a previous motion to the same effect has been disagreed to.

(5) During the consideration in the Senate of the conference report on any such concurrent resolution, debate shall be limited to two hours, to be equally divided between, and controlled by, the majority leader and minority leader or their designees. Debate on any debatable motion or appeal related to the conference report shall be limited to thirty minutes, to be equally divided between, and controlled by, the mover and the manager of the conference report.

(6) Should the conference report be defeated in the

Senate, debate on any request for a new conference and the appointment of conferees shall be limited to one hour to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee, and should any motion be made to instruct the conferees before the conferees are named, debate on such motion shall be limited to thirty minutes, to be equally divided between, and controlled by, the mover and the manager of the conference report. Debate on any amendment to any such instructions shall be limited to twenty minutes, to be equally divided between, and controlled by, the mover and the manager of the conference report. In all cases when the manager of the conference report is in favor of any motion, appeal, or amendment, the time in opposition shall be under the control of the minority leader or his designee.

(7) In any case in which there are amendments in disagreement, time on each amendment in the Senate shall be limited to thirty minutes, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee. No amendment that is not germane to the provisons of such amendments shall be received.

(f) Upon adoption of a concurrent resolution under this section with respect to any Proposed Plan, the concurrent resolution shall serve as a long-term guide to the Con-

gress with respect to legislation relevant to the goals, priorities, policies, and programs recommended in the Proposed Plan, as modified by the concurrent resolution. A copy of the concurrent resolution shall be transmitted to the President by the Clerk of the House of Representatives or the Secretary of the Senate, as appropriate, for such actions as the President deems appropriate.

DIVISION OF FULL EMPLOYMENT AND BALANCED GROWTH

SEC. 305. (a) There is established within the Congressional Budget Office a Division of Full Employment and Balanced Growth (hereafter in this section referred to as the "Division") to perform long-term economic analysis. The Division shall be headed by a Deputy Director who shall perform his or her duties under the supervision of the Director of the Congressional Budget Office and shall perform such other duties as may be assigned to him or her by the Director. Such Deputy Director shall be appointed in the same manner, serve for the same period, and receive the same compensation as the Deputy Director provided for in section 201 of the Congressional Budget Act of 1974.

(b) It shall be the first responsibility of the Division to assist the Joint Economic Committee in the discharge of its duties under this Act by providing, as the Joint Economic Committee may request—

(1) information with respect to long-term economic

trends, national goals, resource availability, and the methods available to achieve full employment and balanced economic growth;

(2) information necessary for the preparation of the report and concurrent resolution referred to in section 304(c); and

(3) such related information as the committee may request.

(c) At the request of any committee of the House of Representatives or the Senate, or any other joint committee of the Congress, the Division shall provide to such committee or joint committee the information necessary to fulfill its responsibilities under this Act.

(d) At the request of any Member of the House or Senate, the Division shall provide to each Member any information necessary to fulfill his or her responsibilities under this Act.

EXERCISE OF RULEMAKING POWERS

SEC. 306. (a) The provisions of this title (other than section 305) are enacted by the Congress—

(1) as an exercise of the rulemaking power of the House of Representatives and the Senate, respectively, and as such they shall be considered as part of the rules of each House, respectively, or of that House to which they specifically apply, and such rules shall

supersede other rules only to the extent that they are inconsistent therewith; and

(2) with full recognition of the constitutional right of either House to change such rules (so far as relating to such House), at any time, in the same manner and to the same extent as in the case of any other rule of such House.

TITLE IV—GENERAL PROVISIONS

NONDISCRIMINATION

Sec. 401. (a) No person in the United States shall on the ground of sex, age, race, color, religion, or national origin be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with funds made available under this Act, including membership in any structure created by this Act.

(b) Whenever the Secretary of Labor determines that a recipient of funds under this Act has failed to comply with subsection (a), or an applicable regulation, he or she shall notify the recipient of the noncompliance and shall request such recipient to secure compliance. If within a reasonable period of time, not to exceed sixty days, the recipient fails or refuses to secure compliance, the Secretary of Labor is authorized (1) to refer the matter to the Attorney General with a recommendation that an appropri-

ate civil action be instituted, (2) to exercise the powers and functions provided by title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), or (3) to take such other action as may be provided by law.

(c) When a matter is referred to the Attorney General pursuant to subsection (b), or whenever he or she has reason to believe that a recipient is engaged in a pattern or practice in violation of the provisions of this section, the Attorney General may bring a civil action in the appropriate United States district court for any and all appropriate relief.

(d) To assist and evaluate the enforcement of this section, and the broader equal employment opportunity policies of this Act, the Secretary of Labor shall include, in the annual Manpower Report of the President, a detailed analysis of the extent to which the enforcement of this section achieves affirmative action in both the quantity and quality of jobs, and for employment opportunities generally.

LABOR STANDARDS

SEC. 402. The policies and programs implemented and provided for by this Act, and funded in whole or in part through this Act, shall provide that persons employed pursuant to such policies and programs are paid equal wages for equal work, and that such policies and programs create a net increase in employment through work that would not other-

wise be done. In providing employment under this Act, or in submitting legislation under this Act, the President shall insure that persons employed in jobs utilizing funds, provided in whole or in part through this Act, be paid wages not lower than whichever is the highest of—

(A) the minimum wage which would be applicable to the employee under the Fair Labor Standards Act of 1938, if section 6(a)(1) of such Act applied to such employee and if he or she were not exempt under section 13 thereof;

(B) the State or local minimum wage for the most nearly comparable covered employment;

(C)(i) in the case of employers which are States, political subdivisions, local educational agencies, public institutions of higher education, or other public agencies or institutions, the prevailing rates of pay for persons employed in similar public occupations by the same employer, or,

(ii) in the case of employers which are nonprofit private organizations or institutions, the appropriate prevailing wage determined in accordance with the Service Contract Act of 1965 or the prevailing rates of pay for persons employed in similar occupations by the same employer, whichever is the higher, or

(D) in the case of persons performing work of the

type to which the Davis-Bacon Act, as amended (40 U.S.C. 276a–276a–5), applies, the prevailing wage determined in accordance with that Act.

AUTHORIZATIONS

Sec. 403. There is authorized to be appropriated such sums as may be needed to carry out the provisions of this Act. Notwithstanding any other provisions of this Act, no provision shall be construed to require expenditures in excess of amounts appropriated pursuant to this Act.

Amend the title so as to read: "A bill to establish and translate into practical reality the right of all adult Americans able, willing, and seeking to work to full opportunity for useful paid employment at fair rates of compensation; to combine full employment, production, and purchasing power goals with proper attention to balanced growth and national priorities; to mandate such national economic policies and programs as are necessary to achieve full employment, production, and purchasing power; to restrain inflation; and to provide explicit machinery for the development and implementation of such economic policies and programs.".

Mr. DANIELS. Serving on the subcommittee, and with me this morning are, to my left, the Congressman from the State of Connecticut, Mr. Sarasin, who desires to make a statement.

Mr. SARASIN. Thank you very much, Mr. Chairman.

During the next few weeks this committee will be considering the now highly publicized legislation to arrive at a full employment rate of 3 percent within a period of 4 years. I do not believe there is one among us who disagrees with the obvious merits of reducing unemployment to such a level nor do any of us lack compassion for those who are without jobs.

Certainly, there is no opposition to focusing our economic policies toward the goal of full employment. However, I sincerely believe that many of us are concerned with the proposed mechanics to accomplish this goal as well as with many of the somewhat glib assumptions made in this legislation.

On Thursday of this week, the Washington Post contained what I believe to be a fairly accurate summation of some of these concerns, and I ask unanimous consent that this editorial be included in its entirety in the record at the end of my statement.

Mr. DANIELS. Is there any objection to the unanimous consent request? Hearing none, so ordered.

Mr. SARASIN. However, I would like to extract the first sentence from this which I believe precisely poses the question this committee must address in the weeks ahead. I quote: "The question is whether the country can establish full employment, permanently and with stability, by enacting a law that requires it."

The Post goes on to answer its own question with the following: "The answer, as you probably suspected, is that it cannot—not without either dangerous inflation or ironclad wage controls."

Although some or all of us may disagree with the conclusion after our hearings and changes in the bill, the fact remains that the legislation presently before us makes little or no effort to look at its potentially ruinous effect on inflation and the health of the economy in general. I doubt that any of us are willing to risk adding 10 to 15 percent to existing inflation, particularly when there are serious doubts that the bill's goals can be achieved.

Nor does the measure make any mention of controlling wages, although several restrictions are placed on prices and profits.

I must marvel at the fact that the bill's sponsors do not remember the disastrous effects of price controls 4 years ago—price controls that resulted in raw material shortages, product shortages, recession, and astronomical price increases once the controls were lifted. Too, we cannot forget the crucial impact of energy costs in 1973, cost increases that many companies could not absorb even without price controls.

Given the fact that we are importing almost half of the energy we use and that we are more vulnerable to energy shortages or stoppages than ever before, price controls appear extremely shortsighted.

In this regard, H.R. 50 is not far removed from demagoguery—and election year irresponsibility. While portending to be a miracle-cure, not unlike the $1 a bottle cure-all sold in the early days of the West, the bill actually guarantees nothing, not from the administration on whom major responsibility is placed to solve our unemployment problems, and most certainly not from the Congress on whom very little, if any, responsibility is placed.

In this regard, I am extremely leery of a bill that purports to provide such a reasoned dialog yet requires the administration to pursue policies to achieve 3-percent unemployment without even considering an acceptable limit on the rate of inflation.

I wonder, too, at the real feasibility of such a proposal if the Congress is so willing to buck all responsibility for what could well be a failure.

Above all, I am highly suspect of a proposal where its chief architect, Leon Keyserling, argues that because we did it in World War II—a wonderful experience, in his view—we can do it now. Mr. Keyserling even goes so far as to imply that it was the genius of centralized planning that brought unemployment down from 17 percent to 1 percent from 1939 to 1944, a time when 15 million men were in arms and more than half the GNP was in war production.

If this logic is to be carried to its ultimate conclusion, we must either find ourselves another major war or we must reconcile ourselves to an economy permanently controlled by the Government. To do this would require us to unequivocably denounce the free enterprise system which has been the bedrock of our growth for the past 200 years.

Finally, we must consider what this measure could do to our people, to the psychological and economic well-being of the unemployed and the employed. This measure provides us no guidelines, no procedures, no mechanisms for success. It simply provides us with a goal with no thought to the costs or the steps which must be taken by the legislative or administrative branch.

Are we not raising hopes on false pretences just as we did during the era of the Great Society? Programs were implemented then, but the poor are still as poor and the hungry still as hungry as they were 10 years ago. Inflation wrote the epitaph to those programs just as it will to this proposal.

The measure, however, is not without one redeeming value. It does offer solid recommendations for changes in the way both the Congress and the administration utilize current fiscal, monetary, and other policies to deal with economic problems, recommendations which would no doubt lead to a healthy dialog of both the problems and possible solutions.

However, if we are truly intent upon reducing unemployment, this committee must look at each and every one of the many unanswered questions found in the Full Employment and Balanced Growth Act of 1976 if we are to find concrete solutions. We cannot simply open another Pandora's box.

Thank you, Mr. Chairman.

[The editorial referred to follows:]

[From Washington Post, Mar. 30, 1976]

LEGISLATING JOBS

The question is whether the country can establish full employment, permanently and with stability, by enacting a law that requires it. The answer, as you probably suspected, is that it cannot—not without either a dangerous inflation or iron-clad wage controls. But that answer is mere economics, and economics is an offensively reasonable discipline with which the country periodically loses patience. This year is the thirtieth anniversary of the great Employment Act, passed partly in fear that the United States might slide back into the Depression, but partly in confidence that a better life was genuinely within reach. That Act set a goal and pointed the country toward it. But now, with the unemployment rate at 7.6 per cent, Congress is beginning to think about more drastic legislation. Support is gathering for the full employment bill drafted by Sen. Hubert H. Humphrey (D-Minn.) and Rep. Augustus F. Hawkins (D-Calif.)

The Humphrey-Hawkins bill would require the administration to get the unemployment rate for adults down to 3 per cent within four years. It does not define "adult," but the authors are inclined to include everyone over 18. Since unemployment is heaviest among the youngest workers, that would make the target much more difficult to meet. Even if the teen-agers are excluded from the rate, the bill would mandate unemployment at a level that, in the past 30 years, it has reached only during the wars in Korea and Vietnam.

This bill would take the extraordinary step of conferring on all adult Americans the right to "useful paid employment at fair rates of compensation." It would require the President to prepare federal programs to keep the rate down—programs of public service jobs, public works grants, state and local aid, manpower training, youth employment and community development. Federal ventures of this sort have existed for years, of course, but the bill envisions an expansion on a scale that cannot be easily predicted. How much would it cost? Mr. Humphrey hazarded a guess that creating 2 million jobs would require an outlay of about $25 million a year, although nearly half of it would be offset by higher taxes and lower unemployment benefits.

But the inflationary pressure does not come mainly from the direct costs of public jobs. It comes from the effect of a tightening labor market on wage rates. Long before the adult unemployment rate fell as low as 3 per cent, wages would have started to creep upward at a dismaying pace as employers bid against each other for manpower. Even without the Humphrey-Hawkins bill, inflationary wage settlements may well turn into the most difficult economic issue with which the next President will have to deal. The most obvious defect of the bill is that it contains no recognition that this danger exists, let alone providing any safeguards. And yet, as the country has seen over the past two years, a high inflation rate itself contributes to unemployment.

The bill shows Sen. Humphrey at his best and worst. Not many men of his warmth and generosity of spirit have ever arrived in the top ranks of American politics. But part of that generosity is his inability to say no to his friends, and some of his best friends are the labor unions. Their opposition to any degree of wage control or even guidelines is adamant, and the senator cannot bring himself to disagree with them. President Ford can be counted upon to make the most of this defect. It would be ludicrous if this Republican administration, having led the country through the most severe price increases in its modern history, should now manage to persuade the voters that the Democrats are the party of inflation. But it is possible.

The point needs to be noted, not only because Mr. Humphrey may be a future candidate for the presidency, but because most of the current Democratic candidates have specifically endorsed the Humphrey-Hawkins bill. Rep. Morris Udall (D-Ariz.) has been citing it for some time in reply to economic questions. Sen. Henry Jackson (D-Wash.) endorsed it last week in New York. Former Gov. Jimmy Carter is studying it, his staff says, and he plans to take a stand on it within a few days.

Employment as a guaranteed and enforceable civil right is a noble concept. But if it doesn't look as though it can be made to work in practice, then what? Bishop James S. Rausch of the U.S. Catholic Conference described the responsibility accurately the other day before the Joint Economic Committee. "Behind the jumble of statistics and the rise and fall of economic indicators lie human lives and individual tragedies," he observed. ". . . What happens to a nation that begins to accept the notion that it cannot use the talents and labor of all its people?"

Working the unemployment rate back down to a tolerable figure will take time, unfortunately, and it may never be possible to hold it there as rigidly as the Humphrey-Hawkins bill envisions. But there are ways to speed up the very cautious progress that President Ford offers. The congressional budget committees are now at work revising the federal budget, for example, to increase growth without any significant penalty in inflation. The time has also come for the country to undertake wider experiments in public employment and training, particularly for young people.

While the country cannot accomplish everything that it wants immediately, it has the capacity to do a great deal. Good policy does not get trapped in false choices between everything and nothing. Full employment remains the goal. If it cannot be achieved simply by passing a bill, it can be approached more rapidly and surely than the country now seems to be doing. That, surely, deserves to be a central issue of the presidential campaign.

Mr. DANIELS. Thank you, Mr. Sarasin.

Serving on this subcommittee this morning with me is one of the senior members of the full Education and Labor Committee, also a member of this subcommittee, Congressman O'Hara from Michigan. Also, to my immediate right is Congressman Beard of Rhode Island; and to my extreme right is one of the standing, well-respected members of this committee and the co-author of the bill before us today, Congressman Augustus Hawkins of California.

I would now at this time recognize my colleague from Michigan, Mr. O'Hara, for any statement he would like to make.

Mr. O'Hara. Thank you very much, Mr. Chairman.

First off, I want to congratulate the Chairman of this subcommittee for his leadership in this matter. Secondly, I want to congratulate my friend from California, Mr. Hawkins, for having developed this piece of legislation which, I think, may well become the most important piece of legislation in this session of Congress.

I recall well that Congress in 1970 enacted legislation, the Comprehensive Manpower Act, of which I was the author, and the gentleman from New Jersey, Mr. Daniels, was a cosponsor, and I believe the gentleman from California and Mr. Ford were co-authors of the legislation, where we made a commitment to implementation of the Full Employment Act of 1946, as this bill does.

That was vetoed by then-President Nixon in December of 1970. The time that we should have made such a commitment is long passed. I think this is a very welcome piece of legislation. I do not share the fears expressed by my friend Mr. Sarasin.

I recall very well during the period of the Kennedy and Johnson Administrations, unemployment was reduced from over 7 percent to 3.4 percent, and that the increase in the Consumer Price Index during that period, over a period of 8 years, was 17 percent, about 2 percent a year.

I contrast that with the record of the last 7 years, during which unemployment has risen from 3.4 percent back up to 7.6 percent. At the same time, the Consumer Price Index has been going up at an average rate of about 8 percent of a year, four times as fast.

I also recall the experience of a number of Western European countries who have been able to maintain rates of increase in their Consumer Price Index certainly no worse than our own, with much lower general levels of unemployment.

So I think this legislation is well-conceived. I think we can accomplish this goal.

I am looking forward to hearing the testimony of the distinguished president of the UAW with respect to the views of that union. I might say that they have been among the leaders in calling for the implementation of the Full Employment Act of 1946 over the years, under the leadership of Mr. Reuther, and under the leadership of Mr. Woodcock. So I am looking forward to their contribution to this hearing today.

Thank you, Mr. Chairman.

Mr. Daniels. I recognize the author of the bill, the distinguished gentleman from California, Mr. Hawkins. Would you care to make a statement?

Mr. Hawkins. Just a brief one, Mr. Chairman. Thank you.

I think the time should be given to the witnesses. I will not take this time other than to say, Mr. O'Hara I think rightfully put it that much of the groundwork for this current legislation was laid earlier. I certainly wish to credit him for a great contribution in that regard.

I would like to reserve this time to have inserted in the record a prepared statement which I have had done which I think will amply answer the attack made on the bill by the gentleman from Connecticut, who certainly is unaware of the issues involved, and possibly unaware of the provisions in the bill.

I would like to reserve at this time to have what is referred to as a highlight issues of H.R. 50 and S. 50.

Other than that, may I also, Mr. Chairman, at this point pay a tribute to you as chairman of this subcommittee, because I think this legislation is not novel and certainly falls into the great tradition of the subcommittee that you have chaired, and I think a large amount of leadership certainly is due to you for the great work that you have done in the manpower field.

Certainly if we are successful in this session, or as soon as practicable, I feel that it will be due to the great leadership that you have given. I wish to pay a tribute to you.

Mr. Daniels. Thank you.

I ask unanimous consent to insert the statement to which you referred in the record at this point.

Mr. Hawkins. Yes.

Mr. Daniels. Is there any objection?

Hearing none, it is so ordered.

[The statement referred to follows:]

POSITION PAPER NO. 1 ISSUED BY SENATOR HUBERT H. HUMPHREY AND CONGRESSMAN AUGUSTUS F. HAWKINS, HIGHLIGHT ISSUES OF H.R. 50 AND S. 50, HUMPHREY-HAWKINS "FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976"

BASIC CONSIDERATIONS

This position paper has been prepared to provide much-sought-after-information about the Hawkins-Humphrey Bill, and to correct some misimpressions about its nature and foreseeable consequences.

The bill is not a single jobs bill designed to achieve full employment by creating "last resort public service jobs" in the Federal service and financed with Federal funds. Instead, the bill creates a new general economic policy framework and process, with a comprehensive package of policies and programs to give that new structure direction and meaning. In large measure, the bill is designed to put teeth into the Employment Act of 1946 by requiring the President, the Congress, and the Federal Reserve to take certain actions to ensure that full employment and balanced growth are achieved. But the actual activities will vary from year to year, depending upon economic conditions, and this flexible process is a major strength of the legislation.

Utilizing all of the policies relevant to full employment, balanced growth, and price stability, the bill is designed to accelerate the enlargement of the total number of jobs needed to achieve 3 percent adult unemployment within four years of enactment. This is to be achieved through the balanced growth of private and public job opportunities. These additional jobs shall be predominantly private, with the remaining jobs allocated at all levels of government, distributed in rough accord with past trends and current conditions, with due allowance for structural adaptation to technological change in various sectors and changing patterns of national needs.

But the bill is not aimed toward full employment only, nor to the creation of "jobs for their own sake," regardless of their utility and productive output. Instead, the bill is aimed toward the balanced development of full employment, production, and purchasing power. An important portion of the additional jobs created would wed the utilization of idle human and other resources with the production of goods and services which meet essential and enduring priority needs, now grossly slighted. The bill focuses upon quality as well as quantity, upon a better as well as a bigger effort. The bill is not aimed only at optimum economic growth, but also at those changes in the composition of growth which are responsive to changing priorities.

The bill is designed, in a practical manner, to restrain price inflation, reduce and then remove the Federal deficit, and to generate benefits, including benefits to the Federal Budget, immensely outweighing the costs involved.

The need for enactment of the bill is not reduced by the current economic recovery. That recovery still leaves us with immense idleness of workers and other productive resources, and there is a significant chance of another recession in 1977 or 1978, and the prospect in any event of intolerably high idleness of resources even in 1980 or 1981. Far more importantly, the bill does not stem solely from the most recent economic recession nor from the current economic situation. It is designed to prevent repetition of the five business cycles of stagnation, recession, and inadequate upturns which have plagued us since 1953, and which have caused us to forfeit in the neighborhood of 3 trillion 1977 dollars of total national production and in the neighborhood of 60 million man- and woman-years of employment opportunity. The Full Employment and Balanced Growth Act of 1976 would initiate planning for sustained full employment, production, purchasing power, and price stability.

A large part of the materials set forth herein are facts. The projections and estimates, as to operations subsequent to enactment of the proposed legislation, are designed to portray broadly the fundamental purposes of the measure, and to indicate a pattern of developments subsequent to its enactment which would be consistent with achieving its objectives. It must be stressed that these projections and estimates are not intended to depict precisely what would actually be the developments pursuant to enactment of H.R. 50 and S. 50. Consistent with the essential purpose of the measure, these developments would reflect year-by-year actions of the President and the Congress, adjusted to unfolding economic trends and needs. Nonetheless, the projections and estimates, as set forth herein, are useful for the purpose of providing a general perspective that will increase the public understanding and evaluation of H.R. 50 and S. 50.

THE PROPOSED ACT DOES NOT "GUARANTEE" A JOB TO ANYONE

Does the Full Employment and Balanced Growth Act of 1976 commit the Federal Government to a job "guarantee," in some legal sense, for all adult Americans? No, the measure does not "guarantee" a job to any particular claimant, nor give anyone the right to sue in court for a job. It confers no legal right upon anyone to claim a job.

Instead, the Congressional declaration of the "right of all adult Americans able, willing, and seeking to work to opportunities for useful paid employment at fair rates of compensation" is a statement of national policy values. It represents a national commitment to pursue job opportunities for all adult Americans who seek jobs, and sets the goal of reducing unemployment to 3 percent within four years after the date of enactment of the measure. The measure includes a sufficiently broad range of methods to make achievement of this goal entirely feasible with vigorous administration of the Act.

VALIDITY OF GOAL OF REDUCING UNEMPLOYMENT TO 3 PERCENT WITHIN 4 YEARS OF ENACTMENT

Contrary to some impressions, the current House version of the bill (H.R. 50) defines the term "adult Americans" to include those 16 years of age and over, which is the definition now used for current official portrayal of the rate of unemployment. The current Senate version (S. 50) does not yet define the term "adult Americans," although Senator Humphrey has indicated that he favors 18 years of age and over.

Some objections to the proposal, on the ground that the 3 percent figure within four years is too low, or that no specific and quantitative goals are meaningful and realistic, are in our view not justified. It is true that the 3 percent goal is ambitious. But it is attainable. And only by setting such a long-term goal is it credible that the nation will marshal the policies and sustain the commitment necessary to achieve full employment. The implementation of the Employment Act of 1946, which the current bill is designed to supplement, has been deficient in recent years because, among other things, there have been no specific and quantified goals. And during some other periods under the Employment Act, the absence of specific goals was accompanied in general by high and secularly rising unemployment.

In contrast, the Employment Act has worked best when such full employment goals were identified in its operation. During 1947–1953, the first period of administration under the Act, goals were specified each year, and unemployment was reduced to 2.9 percent by 1953, compared with 5.9 percent in the recession year 1949. Goals were again set in 1961, following three years of sporadic recession and recovery and a longer period of low average real economic growth and rising unemployment. An interim target of 4 percent unemployment was set, and unemployment was reduced from 6.7 percent in 1961 to 3.8 percent in 1966 and 3.5 percent in 1969.

Assuming enactment of the proposed legislation by the end of 1976, it is estimated that, to reduce unemployment from the estimated rate at the end of 1976 to 3 percent by the end of 1980 would involve additional jobs in the range of 10–12 million, or 11–13 percent of the estimated civilian labor force at the end of 1976. We have done almost as well as this in percentage terms at times in the past, although we started from rates of unemployment much lower than that estimated for the end of 1976. In addition, the Full Employment and Balanced Growth Act of 1976 includes many facilitating programs which were not available during these earlier periods of high accomplishment.

During the four year period from 1949 to 1953, the increase, measured against the civilian labor force in 1949, was about 6 percent, despite the fact that a recession started in early 1953. From 1961 to 1966, a period of five years, the increase in civilian employment similarly measured was more than 10 percent, equivalent to about 8 percent in four years. From 1966 to 1969, a period of three years, the increase was about 7 percent, which equates with 9 percent in four years. From 1970 to 1974, a period of four years, the increase so measured was almost 9 percent. In the base year of all of these periods, as already stated, the level of unemployment was much lower than now, and there had been no recession comparable in duration or severity to the most recent one. Looking at these base years, the rate of unemployment was 5.9 percent in 1949, 6.7 percent in 1961, 3.8 percent in 1966, and 4.9 percent in 1970. Because we are now in a period of relatively lower plant and labor utilization, the opportunity and responsibility to exceed these earlier rates of growth exist.

From March 1975 to March 1976, the increase in employment was more than 3 percent of the civilian labor force in March 1975, or equivalent to almost 13 percent in four years, allowing for compounding. With much more comprehensive, vigorous, and sustained efforts, the goal of increasing employment by 11–13 percent in the four years from the end of 1976 to the end of 1980 is quite reasonable.

The objection is raised, in some quarters, that the records cited just above were during periods of limited war in Korea and Vietnam. But there was no war when the strong recovery from the 1949 recession became manifest. During the period 1961–1966, the Vietnam war was not significant in its economic size relevant to the size of the economy. And during 1970–1974, the economic size of the Vietnam war had declined greatly relative to the size of the economy.

In any event, we reject emphatically any proposition to the effect that full prosperity is unattainable without at least limited wars. What we did during those times, partly to drop bombs on others, we assuredly can repeat and better in economic performance terms, for the noble purposes of lifting living standards and eradicating the misery of massive unemployment and the wastage of other idle resources at home.

There is another way of measuring the feasibility of reducing unemployment to 3 percent by the end of 1980. This would require an average annual real economic growth rate of about 7.0 percent from 1976 to 1980, with somewhere in the neighborhood of 9 percent for at least one year, and year-by-year diminution of this growth rate in the later years as the economy moves closer to full potential. Due to the utilization of a wide variety of micro-economic measures under the proposed legislation, it appears that the 3 percent goal could be reached with a somewhat lower average annual rate of real economic growth than through relying entirely upon general fiscal and monetary measures.

During the first three months of 1976, the annual rate of real economic growth was 7.5 percent, or much higher than in earlier stages of the current recovery movement. But this 7.5 percent rate is not expected to continue under current policies and programs, because it resulted in large measure from a non-sustainable rate of inventory change. And it is widely recognized that even this real growth rate, and more so the real growth rate during the total recovery movement thus far, has been inadequate to reduce unemployment at an acceptable pace; that the real economic growth rate now forecast for the balance of 1976 and future years is too low to reduce unemployment substantially; and that the need is pressing to improve the performance greatly in the period ahead if we are not to run the risk of another recession, and if, even without another recession, we are not to be left at intolerable levels of unemployment and other idle resources as late as 1980 or 1981.

The feasibility and indeed the necessity of the real economic growth in the neighborhood of 9 percent for a year, considering how far we now are from reasonably full resource use, is not solely the conviction of the proponents of H.R. 50 and S. 50. For example, Business Week of February 2, 1976 sets forth the view of Professor James Tobin of Yale University, past President of the American Economic Association, and one of the ablest former members of the Council of Economic Advisors. Professor Tobin's views are set forth as follows:

"Tobin argues that, after coming out of the steep recession, a 6 to 7 percent rate is just too low a target to shoot for, and that, given the low level of capacity utilization, the economy can grow *9 percent this year without any inflationary impact.* (Italics added.) Tobin wants fiscal and monetary stimuli to push the economy to this high growth level."

The views just cited relate only to the feasible and necessary pace of the economic restoration during the first year. Meanwhile, there are some who assert that a pattern of real economic growth rates consistent with reaching 3 percent unemployment by the end of 1980 is attainable for a year or two, but not for four years. In support of this, there is citation of the performance record of the economy from 1953 to date. But the entire objection neglects the obvious fact that, during this long period we experienced five cycles of upturns, stagnations, and absolute downturns or recessions, with the most recent recession being by far the longest and deepest since the Great Depression. We have had ineffectual economic policies during most of this period. As a result, each upturn at its peak has tended to leave us with more idle workers and other productive resources than the peak of the previous recovery. Never since the 2.9 percent rate of unemployment in 1953 have we returned to full employment or full production. With some undulations, the long-term or secular trend of unemployment has been severely upward. And the very recent period of the most serious economic deterioration, in terms of idle resources, have been accompanied at times by the highest rate of price inflation since the Civil War.

The purpose of H.R. 50 and S. 50 is not to accept a repetition of the bad things that have happened, but rather to benefit from the lessons learned, and to prevent these things from continuing to happen. The central purpose of the bill is to set up a new process and program to implement government economic policy in a coherent manner. We should look through the front window, and move toward where we want to go and can go, not look through the rear-view window showing the rocky road of the past and letting that dismal perspective lead us to more of the same.

It should also be recognized, in connection with the goal of reducing unemployment to 3 percent by the end of 1980, that other industrialized countries consistently achieve lower rates of unemployment than the U.S. During the period 1962–1968, while the U.S. had an average unemployment rate of 5 percent, Japan, France, the United Kingdom, Sweden, and Germany had an average unemployment rate of 1.8 percent. During our most recent recession, the differential widened. In 1975, the unemployment rate in the U.S. was 8.5 percent, compared with an unemployment rate average of about 3.5 percent for the European countries cited.

Finally, it should be borne in mind that a goal is a goal—not an absolute and rigid requirement. The purpose of setting goals is to help us do better, not to achieve perfection for all times. H.R. 50 and S. 50 provide for annual review of the goals and, it should be emphasized, also require the President in the first year to review the full employment goal and timetable and "report to Congress on any obstacles to its achievement and, if necessary, propose corrective economic measures to insure that the full employment goal and timetable are achieved."

H.R. 50 AND S. 50 TO NOT CONCENTRATE UPON PUBLIC SERVICE JOBS, BUT UPON BALANCED ADDITIONS TO PRIVATE AND PUBLIC EMPLOYMENT

H.R. 50 and S. 50 do *not* place major emphasis upon reservoirs of public service jobs in Federal employment and financed by the Federal Government. To the contrary, the measure is designed to integrate all efforts toward balanced-growth job expansion, in this clear order or priority:

(1) Expansion of conventional private sector jobs, through improved monetary and fiscal policies; promotion of an economic environment in which private enterprise would be encouraged by the assurance of full and growing markets for its products, and by greater stability and certainty in public policies; removal of undesirable Federal rules and regulations; improved training programs; and the "multiplier" effect upon private employment of all of the other employment and investment activities provided for in the bill;

(2) Expansion of national priority jobs, with improved Federal assistance of a marginal nature, the need for which is already recognized. Even these additional jobs would not be mainly public jobs, much less "public service" jobs. They would be mainly private jobs, as is clear from the nature of the priority needs cited in the proposed legislation—aspects of housing, mass transportation, environmental improvement, resource development, health, education, etc. Even the priority jobs in the public sector would be mainly State and local, rather than Federal; and most of these public sector jobs would have a high "multiplier" effect upon private employment and investment;

(3) Supplementary to the above means of providing jobs, a series of micro-economic policies and programs, more specialized and pinpointed than fiscal and monetary policies, and designed to reduce the inflationary strain which would be involved in using fiscal and monetary policies alone to achieve and maintain full employment. These micro-economic policies and programs include countercyclical employment measures, a countercyclical grant program to help stabilize State and local budgets during periods of high unemployment and low production; regional and structural employment measures; and youth employment measures. The jobs thus provided would also be mainly private, although with marginal Federal aid;

(4) As a last resort, for those otherwise unemployed, and subject to many strict criteria of eligibility, H.R. 50 and S. 50 provide for reservoirs of public and private nonprofit jobs, financed by the Federal Government although a large portion of them would not involve Federal employment. It is likely that such public service jobs, at their peak, would not be more than 1–1.5 million. The 3 million public jobs in the initial year as estimated by the C.B.O. (discussed later) is in our view far too high, because it assumes that other provisions of the legislation would not add substantially to employment.

It is not possible to project in detailed precision the distribution of the additional jobs between now and the end of calendar 1980. This would depend upon how well private enterprise responded to the various inducements offered to it, and upon year-by-year decisions of the President and the Congress with respect to specific policies, programs, appropriations, etc. But it is feasible to make some very rough and preliminary estimates, to provide a rough perspective of developments under the proposed legislation. To reach 3 percent unemployment by the end of calendar 1980 might involve total civilian jobs, by the end of calendar 1980, 10–12 million above the total estimated for the end of calendar 1976. Somewhere between two-thirds and three-quarters of these additional jobs would be conventional private jobs, including a good number resulting from micro-economic approaches; and in addition a substantial number would be jobs in the private sector related to federal financial assistance of national priorities in areas such as housing, health, food, and transportation. Thus, only somewhere in the neighborhood of one-fifth of the additional jobs would be State, local, and federal, with the increase in federal jobs coming to only a small fraction of the total increase in government jobs. The Federally-financed reservoirs of public service jobs would at their peak be only a small fraction of the total additional jobs, and a majority of these, as stated above, would not be Federal employment.

THE BILL IS NOT AIMED AT JOB CREATION ALONE: IT IS AIMED ALSO TOWARD BALANCED ECONOMIC GROWTH

Although work opportunity is of intrinsic value to the individual, H.R. 50 and S. 50 are not designed just to create jobs. They are designed to promote conditions whereby enough of the additional jobs, and the resultant output, private and public, are devoted to the great priorities of our economic and related human needs. The Full Employment and Balanced Growth Plan, in addition to goals for full employment, would encourage integrated attention to the use of appropriate portions of the additional employment and G.N.P. in such specified fields as energy, transportation, food, small business, environmental improvements, health, education, housing, and Federal aid to State and local governments.

In the perspective of our total needs and resources, these priority programs would be evaluated and shaped in terms of the economy's ability to support them without strain, in terms of their relevancy to achievement of sustained full employment, full production, and balanced growth, and in terms of their relevance to the real needs of the American people. Most of these priority jobs would be in the private sector, although many of such jobs, as always, would need Federal assistance.

These aspects of H.R. 50 and S. 50 are of transcendent importance. Since the launching of the first Sputnick in 1957, we have written and spoken billions of words about the imperative need to reorder our national priorities. But words have hardly been followed by deeds. The new legislation will, for the first time, initially define these national priorities more precisely, require that they be made an integral part of the annual development and review of Full Employment and Balanced Growth Plan, and greatly improve the evaluation and shaping of these priority endeavors.

Effect upon women, teenagers, and minorities

As the current rate of total unemployment is accompanied by a several times higher rate of unemployment among women, teenagers, and minorities, concern would be accompanied by several times this rate of unemployment, or at least very high rates of unemployment, among these three groups. This concern is unfounded.

When unemployment is very high, various factors have combined to increase unemployment among these three groups much more than among others. In consequence, reduction of total unemployment to 3 percent would, percentage-wise, necessarily reduce unemployment among these three groups much more than among others; without this, it would be impossible to get total unemployment down to 3 percent.

Past experience demonstrates that, when total unemployment is very low, the differential between the rate of unemployment among these three groups and among others is very small. For example, the rate of unemployment for those 20 years of age and over was 3.0 percent in 1951, 2.7 percent in 1952, and 2.6 percent in 1953. In these same years, respectively, the rate of unemployment among those aged 16 and over (i.e., total unemployment) was 3.8 percent, 3.0 percent, and 2.9 percent. Much the same factors apply with respect to women and minority groups.

It is probable that these differentials would be at worst no greater, and maybe even smaller, under the operations of the Hawkins-Humphrey proposal when enacted. For that measure includes special provisions to deal with this vital problem, such as the special program for youth employment and the strong provisions against discrimination in any form.

Sharing unemployment is not a viable solution to the problem of massive unemployment even if, under conditions of massive unemployment, a more equitable distribution of the burden is desirable. Sustained full employment, in contrast, is the solution to the entire problem of unemployment among any. It follows that women, teenagers, and minority groups, the most extreme victims of massive unemployment, have by far the greater relative stake in the Full Employment and Balanced Growth Act of 1976.

THE PROPOSED LEGISLATION WOULD NOT CREATE NOR ENCOURAGE "WASTEFUL" OR "NONPRODUCTIVE" JOBS

This is made abundantly clear by the foregoing description of the types of additional jobs which would be created with Federal financial assistance or in Federal employment, it is clear that such jobs in the past have, with rare exceptions, not been less useful to the nation and the people than some private jobs developed willy nilly, without regard for their purpose and their value to the nation and the people. Moreover, employment is more useful and productive than unmerited unemployment, accompanied by large public payments to the unemployed and not accompanied by any output of goods and services on their part.

Nor is there merit in the proposition that those engaged in the new and needed types of jobs would want to "hold on" to these jobs, regardless of their marginal worth to the economy and the people, and would be reluctant to return to various types of conventional private employment. And for reasons already stated, most public jobs would not be of an "emergency" nature. Also, the worth of jobs to the nation and the people is determined by the needs they serve, not by their labels. Insofar as some of the additional jobs would be "emergency" jobs, prior experience during the 1930's does not indicate any great difficulty in the shift of workers from "emergency" types of public jobs back to private employment, when the private employment opportunity really became available. Further, any revealed deficiencies in performance under public service jobs would be remediable through review under the legislation.

There is little merit in the proposition that the new types of jobs developed under the proposed legislation would register less productivity growth than some convenional types of jobs. The facts bearing upon relative productivity growth do require much further study. But the relative rates of productivity growth, conventionally measured, are no final test of the utility of the jobs to the economy and the people. Even if there were less productivity growth, conventionally measured, among teachers, those working in the health field, and those planting trees and developing parks, than among those manufacting superficial gadgets and building more gambling casinos or luxury hotels on the beaches, it does not follow that the former types of employment are not of far greater value to the nation than the latter.

WAGE PROBLEMS UNDER FULL EMPLOYMENT

An additional argument is made in some quarters that a vigorous movement toward full employment, or the condition of full employment, would lead inexorably to real wage rate gains far in excess of productivity gains, and therefore be inflationary. The empirical evidence during two decades or longer negates this proposition. Generally speaking, each of the periods of vigorous economic upturn, and each short period when we have come close to full employment, have been characterized by real rate gains in the private economy lagging far behind productivity gains in the private economy. The current period of economic recovery affords another strong documentation of this empirical fact. From fourth quarter 1974 to fourth quarter 1975, productivity in the total nonfarm economy rose 3.9 percent, while real wages and salaries rose only 1.2 percent, including not only increased rates of pay but also increased employment.

Nor is it correct to suggest that the wage standards in the proposed legislation are so generous that they would favor public employment at the expense of private employment. These wage standards are "neutral" between the private and public sectors because they simply reaffirm existing fair wage standards. Section 402 of the bill states that people employed under the law shall receive "equal wages for equal work." It then prescribes a range of wage standards from the minimum wage to prevailing wages for similar employment in the specific labor markets. This means that the wages paid will depend upon the kinds of jobs created. In other words, someone doing a job that merits not more than the minimum wage will be paid that wage, while a worker doing a job of higher value will be paid a commensurate wage. We believe that the bill contains a flexible and fair set of wage standards.

FULL EMPLOYMENT DOES NOT ENCOURAGE INFLATION ; IT TENDS TO REDUCE IT

The sponsors of the legislation do not accept the argument that the progress of the economy required to reduce unemployment to 3 percent by the end of calendar 1980 would be too costly in terms of inflationary pressures. Those who insist that increased production and employment augment inflation have, in the main, got things turned upside down. The principal way to reduce inflation is to increase production, productivity, and the supply of goods and services to meet the nation's needs. This has not happened during recent years. Nor has there been, during recent years and now, any conventional "trade-off" between unemployment and inflation. The only "trade-off," insofar as there has been any, has been mainly in the opposite direction: more unemployment and more inflation, and vice versa. The following eight points deal with the inflation issue.

(1) The empirical evidence strongly supports the conclusion that a faster rate of real economic growth, conductive to a rapid reduction of unemployment, is conducive to less inflation than the contrary course.

During 1947–1953, an average unemployment rate of 4.0 percent and reduction to 2.9 percent in the last year was accompanied by an average inflation rate of 3.0 percent and reduction to 0.8 percent in the last year. Controls were responsible for only a part of this. And a very low rate of inflation persisted for a number of years after controls were abandoned, refuting any claim that a "time lag" results in "delayed" high inflation after the termination of very low unemployment.

During 1958–1966, unemployment was reduced from 6.8 percent to 3.8 percent, and the average annual inflation rate was only 1.5 percent, and only 2.9 percent in the last year. The rising inflation in 1967–1969 was accompanied by a sharp reduction in real economic growth, and by very little reduction in unemployment below the 1966 level. During 1969–1975, the average annual unemployment rate was 5.6 percent, and rose to 8.5 percent in the last year, while the average inflation rate was 6.6 percent and rose to 9.1 percent in the last year. From 1973 to 1974, unemployment rose from 4.9 percent to 5.6 percent (and to 7.2 percent in December 1974), and the rate of inflation rose to 11.0 percent.

The current recovery movement is entirely consistent with the foregoing. Unemployment dropped from a May 1975 high of 8.9 percent to 7.5 percent in March 1976, with a rebound in economic growth to a real annual rate of 7.5 percent during the first three months of 1976, while the annual rate of price inflation declined to 3.7 percent. The decline from double digit inflation was only partly due to the disappearance of such factors as the oil crisis and the crop failures; it was significantly due to the improved economic performance.

Even if the above data are subject to some differing interpretations, they certainly do not justify any repression of employment growth and deliberate cultivation of high unemployment on the theory that this restrains inflation.

The foregoing correlations are sometimes challenged on the ground that there is a substantial "time lag" between the end of a period of very low unemployment and high real economic growth and the advent of rapid or accelerating price inflation *after* the advent of rising or high unemployment and low or negative real economic growth. This challenge is based upon the assertion that the rising inflation occurs because of prior "overheating" of the economy in terms of employment and production during a period when prices behaved very well. But very little empirical evidence supports this thesis. At least, the evidence is so ambivalent that it is devoid of any persuasiveness as a guide to employment policy.

For example, as already stated, the period 1947–1953 was "overheated" in the sense that these years averaged high real economic growth, low unemployment, and low inflation, and culminated in 1953 with an unemployment rate of only 2.9 percent and an inflation rate of only 0.8 percent. On the theory of the "time lag," one would have expected high inflation in the following period 1953–1960, when the economy was anything but "overheated." But the inflation rate averaged annually only 1.2 percent during this period. And, in further repudiation of the "trade-off" theory, the inflation rate was 2½ times as high in the last year of this period as in the first year, although unemployment rose from 2.9 percent in the first year to 6.7 percent in the last.

(1) The theory of the "time lag" is usually associated with the assertion that real wage-rates advance faster than productivity gains during the "tight labor markets" associated with the "overheating" in the form of low unemployment and high real economic growth, and that price inflation, after this period is over, accelerates to "catch up" with the earlier wage rate advances. But the empirical evidence is almost all to the contrary. During periods of lower unemployment and higher real economic growth, real wage rate gains have not been "inflationary"; they have lagged far behind productivity gains. For example, from fourth quarter 1974 to fourth quarter 1975, productivity in the private nonfarm economy increased 3.9 percent, while real wages and salaries increased only 1.2 percent. Allowing for additional employment, the gap was even greater.

(2) Perhaps the most important single factor, operating counter to the conventional "trade-off" theory that high production and full employment increase inflation, involves the behavior of productivity. More rapid increases in productivity reduce inflationary pressures, and a declining rate of productivity growth increase inflationary pressures. For example, the average annual productivity gains in the private nonfarm economy were only 0.1 percent during 1972–1975, when the average annual rate of increase in real G.N.P. was only 0.2 percent and when the average rate of unemployment was very high. From first quarter 1975 to first quarter 1976, in contrast, the annual rate of such productivity gains was 5.2 percent, while the annual rate of real economic growth was 6.9 percent and unemployment was reduced substantially. The same conclusion is supported by review of all experience since 1947.

(3) Due to the cumulative impact of this empirical evidence, there is increasing recognition, even in President Ford's 1975 Economic Report, and in recent statements by Alan Greenspan and Arthur Burns, that the "trade-off" between unemployment and inflation no longer has validity. The Economic Report states on page 4 that "inflation and unemployment are not opposites but related symptoms of an unhealthy economy." Arthur Burns said, in a University of Georgia speech in September, 1975: "Whatever may have been true in the past, there is no longer any meaningful trade-off between unemployment and inflation."

(4) Although increased production and improved productivity are the best weapons against inflation, it is recognized that, as the economy approaches full utilization of its human and capital resources, bottlenecks and price pressures may develop. To avoid this, the Full Employment and Balanced Growth Act utilizes a wide range of both employment and anti-inflation policies which will improve our ability to achieve full employment and reasonable price stability. These include the use of many micro-economic job measures that would exert less inflationary pressures per increase in employment than the exclusive use of general monetary and fiscal measures to attain the same increases in employment, e.g., youth employment policies, regional and structural employment policies, reservoir projects, and improved coordination of efforts at all levels. The long-range planning efforts under the bill, including the identification of priority needs, would also tend to improve the allocation of resources and increase the supply of goods and services to critical areas experiencing restricted supplies.

In addition, the bill provides these direct and anti-inflation measures: comprehensive information system to monitor and analyze inflationary trends; more refined use of monetary and fiscal policies; programs and policies to increase supply of goods, services, labor, and capital in structurally tight markets, with particular emphasis upon increasing the supply of food and energy; provisions for export licensing; encouragement to labor and management to increase productivity; recommendations to strengthen and enforce the antitrust laws and to increase competition in the private sector. The bill also calls for other recommendations for administrative and legislative actions to promote reasonable price stability if situations develop that seriously threaten reasonable price stability. The measure does not call for comprehensive price-wage controls, however, because the evidence is lacking that increasing real economic growth and reducing unemployment in accord with the bill's time schedule necessitates such controls.

(5) As will be subsequently demonstrated, the fulfillment of the objectives of H.R. 50 and S. 50 would gradually reduce the Federal Budget deficit and achieve a surplus in due course. In contrast, huge and continuous budget deficits are certain to continue, so long as national policies continue vainly to attempt to squeeze the blood of adequate federal revenue from the turnip of a repressed economy. This point should have compelling weight among those who insist that a huge budget deficit is a prime cause of inflation.

(6) Beyond the proper approaches to the restraint of inflation, the real "trade-off" issue is not between unemployment and inflation. The real issue involves recognition that the much larger real G.N.P. and other benefits resulting from Humphrey-Hawkins immensely outweigh any highly uncertain estimated variation in the inflation rate which might result from the higher rate of real economic growth and the more rapid reduction of unemployment. It is therefore wise and beneficial to elect the certain benefits of a full economy rather than get hung up on what are, at best, extremely dubious and undemonstrable hypotheses as to the relationship between the state of the real economy and the amount of price inflation. Forecasts of variable rates of inflation in future, based upon variable rates of real economic growth and unemployment, are too hazardous and uncertain to use them in support of accepting massive unemployment and immense real G.N.P. forfeitures. This is supported by the fact that the inflation forecasts in recent years by competent economists as to the rate of inflation have been extremely wide of the mark. Who among them anticipated that double-digit inflation would accompany the highest unemployment and the biggest real G.N.P. downturn since the Great Depression?

(7) On perhaps a higher plane of discussion, it is immoral to tolerate deliberately, and even to induce, the evils of massive unemployment on the questionable ground that this enables the employed and affluent to benefit by somewhat less inflation than if the unemployed had useful jobs. We should move toward full employment at all deliberate speed, and simultaneously direct appropriate anti-inflationary measures to any serious manifestations of inflation if these in fact appear.

(8) The Congressional Budget Office has very recently supported the proposition that the Full Employment and Balanced Growth Act of 1976 need not increase inflationary pressures, and might substantially reduce them.

Alice Rivlin, Director of C.B.O., in a letter to Congressman Augustus F. Hawkins, dated April 22, 1976, in response to a series of questions submitted by him on April 1, 1976 with reference to H.R. 50 and its provisions, said this:

". . . most would also agree that measures to reduce structural imbalances in the labor market, to improve labor mobility, to reduce frequent occurrences of unemployment among the unskilled, and to improve employability by training and the elimination of discrimination could lower the unemployment rate at which the labor market becomes tight. If such measures were adopted and were effective, a non-inflationary unemployment rate could potentially be even lower than 3 percent."

Ms. Rivlin's letter also said:

"Supplementary measures to reduce potential inflationary pressures both during the recovery period and in the full-employment economy envisioned in H.R. 50 could hold down price increases. Their effect might work both through reducing inflationary expectations as well as by mitigating some of the underlying economic forces that contribute to price increases. Materials costs might be reduced by some of the measures suggested; and a weakening of the market power of monopolies might result in somewhat lower prices if profit margins are reduced thereby . . . Increasing productivity in the private sector could be advantageous, particularly if unskilled workers are to be drawn into private sector jobs at relatively high wages.

"While the effects of such measures would seem to work in the direction of reducing inflation, it is difficult to analyze how great that effect would be without more detail as to the specific policies envisioned. Further, while it is likely that such measures would result in less inflation at 3 percent unemployment than if no anti-inflation program were adopted, it is not possible to conclude that the inflation rate under these circumstances would be more or less than if a slower-recovery strategy and/or a high long-run unemployment rate target were adopted."

This statement at least makes no claim that additional inflationary pressures would result from a faster rather than a slower reduction of unemployment. However, we regard as more significant and conclusive the first statement by Ms. Rivlin, set forth above.

THE BENEFITS AND COSTS OF THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

Any attempt to appraise the Federal Budget dollar costs of implementing the legislation will become hopelessly confused unless these costs are measured against: (1) the enormous economic benefits gained from increased production, employment, and wealth; (2) the increased Federal Budget revenues due to higher employment and production; and (3) the Federal Budget savings in some programs, resulting from higher employment and lower unemployment, and from other savings which would result under the legislation. For if one only wanted to minimize the budget dollar costs of this or any other legislation, the logical conclusion would appear to be to do nothing. This would be incorrect, because it does not recognize that Budget expenditures are necessary to meet vital national needs and that, when wisely used, they generate economic and Budget benefits. For example, the creation of a job for one person may cost twice or more as much in Budget dollars as unemployment compensation or welfare—but remember that the person then has a productive role creating valuable goods and services for the society. Building a house or factory will cost more in dollars than doing nothing—but remember that we then have the national asset of a house or factory. In other words, doing something usually costs more in dollars than doing nothing, but if we are wise about how we spend money—Budget dollars and other dollars—the benefits from the investment will be far greater than the costs.

For the reasons given above, the Humphrey-Hawkins bill should be evaluated in the context of its broad benefit-cost ratio. We believe that this evaluation demonstrates an excellent economic and financial bargain on all scores.

First as to the economic benefits which the legislation would bring, in terms of production, employment, and national wealth. It is not feasible, at this stage, to estimate these benefits precisely, because the size and composition of these benefits will depend largely upon the future behavior patterns of the economy at large, and upon year-by-year decisions and actions by the President and the Congress, who alone can propose or enact legislation or appropriate funds. The proposed Act does not and cannot take the place of these year-by-year developments and decisions. Like recent legislation reforming the Congressional budget process, the Act can only provide a flexible framework to promote policy and program improvements as the process of Executive and Congressional responsibilities unfolds over the years.

But saying this is not enough. Recognized methods are available for estimating, roughly the differences between (a) the course of the economy under a firm determination to use all available means to reach 3 percent unemployment by the end of 1980, this being the Congressional mandate under the proposed Act, and (b) the course of the economy if it proceeds through 1980 in accord with normal unfolding of the current Administration's policies and programs. These estimated differences are offered only to provide a broad perspective, not to forecast exactly what the President and the Congress will do. They will do as they see fit. Although variations between these broad estimates and actual developments during 1976–1980 under alternatives (a) and (b) above might be substantial, they would probably not be large enough to affect the utility of these broad estimates in evaluating the potential benefits under the proposed legislation.

It is estimated roughly that the Humphrey-Hawkins bill, properly adhered to after enactment, would result in about 725 billion dollars *more* in G.N.P. or production of goods and services during the four calendar years 1977–1980, or an annual average of approximately 181 billion more in G.N.P. benefits, than would result under normal unfolding of the current Administration's economic policies and programs. These estimated G.N.P. benefits are based upon comparing (a) the real average annual growth rate of about 7 percent during 1976–1980 (designed to reduce unemployment to 3 percent within four years) with a pattern of growth rates that are high in the first years and taper off as the economy approaches full employment, with (b) a projected real average annual growth rate of 4 percent under the present Administration policies. We regard the assumption of a 4 percent growth rate under current Administration policies as generous, in view of the 1.8 percent average annual real growth rate which actually occurred during the period 1969–1975.[1]

It is further estimated that the difference between G.N.P. courses (a) and (b) would relate to a difference, during the four year period, of somewhere in the neighborhood of 12.5 million man- and woman-years of jobs.

There are additional factors that could either raise or lower these G.N.P. benefit estimates between now and 1980. Some argue, for example, that the high growth rates projected cannot be achieved nor maintained. This negative analysis is rejected for the reason enumerated on pages 3–7. We believe that the broad range of new policies and programs in the legislation will enable us to achieve much higher rates of real economic growth than would otherwise occur. These new techniques may also make it possible to reduce unemployment relatively more per increase in production than has been the case traditionally.

In addition, there are other factors associated with a movement toward full employment, which not only make it easier to achieve the required economic growth rate but also, and far more importantly, confer other benefits besides higher real economic growth. These include the reduction of crime and other social aberrations; improved mental and physical health in consequence of employment rather than unemployment for millions of breadwinners and their families; increased family contentment and stability; betterment of the living environment due to better housing conditions, cleansing the environment in the more limited use of the term, and enlarged social services generally; reduction of the stigma and anxiety of poverty; and the vastly improved social and civil climate when everyone able, willing, and seeking a job is provided an opportunity for a productive and respected role in society. Although it is difficult to place a dollar value on such benefits, without more extensive research than we can undertake, these are almost incalculable gains that will result from the proposed legislation when enacted.

The benefit of about 725 billion fiscal 1977 dollars more of G.N.P. during the four calendar years 1977–1980 inclusive, about 181 billion more on an annual average, and about 252 billion more in 1980 alone, comparing the estimated consequence of reducing unemployment to 3 percent by the end of 1980 with the estimated consequences of reasonable adaptations of current national policies and programs, would also bring these benefits to the Federal Budget itself: Using for rough purposes a 20 percent ratio of Federal Budget receipts to G.N.P. (assuming existing tax rates), there would be about 145 billion fiscal 1977 dollars more Budget receipts during the four fiscal years 1977–1980 inclusive, about 36 billion more on an annual average, and about 50 billion more in 1980 alone.

Having taken account of the multiple-benefits under the legislation as set forth above, we turn to consideration of the increased Federal Budget outlays which would result from the legislation. The only such outlay which requires insertion in the fiscal 1977 Budget at this stage is the estimate of administrative costs during the first year of operations under the Act. These administrative costs would need to cover the many initial planning and development steps required to establish the new process and to determine the new policies and programs. This is estimated to be only 50 million dollars, in view of the intent to carry forward the Act's specified Federal activities under the aegis of existing agencies and instrumentalities. In later years, it is estimated that these administrative costs would be no higher, and might be considerably lower, in that many of the planning and developmental steps in the first year would be of lasting utility.

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[1] All benefit projections are in constant fiscal 1977 dollars.

The larger issue is how much would be needed in the Federal Budget to implement the policies and programs embodied in the Full Employment and Balanced Growth Act of 1976. Obviously, no precise estimates are feasible now, any more than under the Employment Act of 1946. For the new proposal is primarily an exercise in improved policymaking. Thus, Federal Budget policy under the new legislation would depend, as we have indicated, upon unfolding events from year to year, including the performance of the private sector under the many inducements which the legislation would offer, and depend also upon year-by-year decisions, reconsiderations, and adjustments by the President and the Congress.

The impracticality of precise or detailed Federal Budget expenditure estimates at this stage is fully recognized by the Congressional Budget Office. In a very recent paper entitled "An Economic Analysis of the Full Employment and Balanced Growth Act of 1976," the C.B.O. states this: "Because the state of the economy in any future year is unknown and because a variety of policy options are available in S. 50 [and H.R. 50], it is not possible to provide a single cost estimate of S. 50 [and H.R. 50] for any particular year."

However, for the same reasons as stated above with respect to G.N.P. and related benefits, it is desirable to estimate in broad perspective the increased Federal Budget expenditures that the legislation would entail, which is done in a very recent Congressional Budget Office study furnished to the Joint Economic Committee and released by its Chairman, Senator Humphrey. Assuming modest economic growth between now and 1980 (not the higher growth rate in consequence of the current legislative proposal), the C.B.O. estimates that it may be necessary to create public employment for approximately 3 million persons if we are to achieve an unemployment target of 3.5 percent, the target relevant for an 18 year old definition of "adult." The initial net annual Budget cost of such a program would be approximately 17.5 billion dollars, with such costs declining to about 8 billion dollars annually after 24 months because of decreased welfare and unemployment compensation and higher tax revenues. These later net annual Budget costs would be 11–12 billion dollars if the unemployment target is 3.0 percent, the target relevant for a 16 year old definition of adult. (The C.B.O. estimates of gross Budget costs are higher, running from about 27 billion dollars in the initial year and reduced to about 23 billion on a long range annual basis. But only the net Budget costs, reflecting proper offsets due to reduced costs in consequence of fuller employment, are really relevant.)

The C.B.O. estimates other factors that could raise these net Budget cost estimates. The C.B.O. makes a higher cost estimate as an alternative, which is based on a very large "displacement" of workers from existing to newly created jobs. Although this could occur if job creation is not properly carried forward, we do not believe it will occur because the proposed legislation is designed to add to net employment, and because the proposed legislation contains various specific provisions to assure that public employment will not be offered to those who can obtain private jobs despite serious efforts, or who leave or refuse to accept other jobs under appropriate standards. For a more complete explanation of displacement and the various estimates of gross and net Budget costs associated with this legislation, see "An Economic Analysis of the Full Employment and Balanced Growth Act of 1976," Congressional Budget Office, May 21, 1976.

In addition, the C.B.O.'s net Budget cost estimates would be reduced by taking into account other savings to the Federal Budget under the legislation. Some examples are savings from reduction in crime, reduced interest costs on the national debt, lower recession-related grants to State and local governments, the economy in government provisions in the legislation, and so forth. Although it is not possible to compute with any precision these Budget savings, they are certain to be several billion dollars a year, and to rise year by year.

In summary, the C.B.O.'s estimate of net Budget costs of 8–12 billion dollars annually on a long range basis is a liberal estimate of the Budget costs under the legislation, given the uncertainties we face with respect to future economic conditions and the implementation of the policies mandated.

Although such Budget costs are significant when viewed alone, they are very small at the highest when compared with the benefits from a full employment policy, as estimated above. As we have already indicated, the nation can expect the annual benefit of additional economic growth of roughly 180 billion dollars a year, compared with projection of current policies and programs. This will

mean additional Federal tax revenues, as estimated above, several times the C.B.O. estimates of the net Budget costs under the new law. This will also mean a rapid reduction in Federal deficits and the prospect of a Budget surplus by 1980, or not long thereafter. As our common sense tells us, and the figures show, full employment is a great bargain on all scores.

Mr. DANIELS. I recognize the gentleman from Rhode Island, Mr. Beard.

Mr. BEARD. Mr. Chairman, in the short period of time that I have been in the Congress, I have watched a few bills go from the House to the Senate to the President and back to the system again, finally lost on the President's veto.

The administration's point of view in helping private industry, keeping everybody on top happy, not trickling down to help the little guy, it is not helping. We still have 14 percent unemployment in Rhode Island.

I hope this will be the beginning of legislation that will see favorable light in the Congress and that the President of the United States once and for all will make an honest attempt to put people back to work.

In my State, we have been crippled with military pullouts for the last 10 years. We are crippled with the textile industry dwindling down, the jewelry industry dwindling down.

Everybody and his uncle are making products overseas, crippling our own industries in America as well as our own State. I think it is time that we have legislation passed instead of talking about it. Let us get the legislation on the books.

Mr. DANIELS. Thank you.

Joining us since these hearings started this morning is another senior member of the full Committee on Education and Labor, the gentleman from Michigan, Congressman William Ford.

Would you care to make a statement?

Mr. FORD. Thank you, Mr. Chairman.

I came by this morning because we have a distinguished citizen we are proud of in Michigan testifying. I left my other committee meeting to come over here to hear his testimony. Jim O'Hara, as he usually does, has said what I would have said if I were either as articulate or senior as he, if I had spoken first.

One of the reasons I am pushing hard for him to go to the Senate, Mr. Chairman, so I will be able to speak first for Michigan on this committee, then he will do it on the other side.

I want to compliment the chairman for getting this bill to hearings and also especially to my dear friend, Gus Hawkins, for the fact that he has taken a piece of legislation that I cosponsored with him when I could not get cosponsors a couple of years ago, and now put it in a form notwithstanding the people who are nervous and worried because it seems to be bold and imaginative, has a chance and a practical chance. It is no longer pie-in-the-sky or subject to the accusation that it is "pie in the sky."

The very fact that he has 120 of our colleagues to cosponsor this legislation already indicates maybe we are talking about a piece of legislation has been around long enough for its time to come.

I hope, Mr. Chairman, that you will be able to expedite these hearings and move with this legislation as soon as possible.

Thank you.

Mr. DANIELS. I might say, in response to your last statement, that the subcommittee has scheduled at least six more hearings and it will keep me fully occupied, at least for the next week or 10 days.

I might also say that other hearings that were scheduled on important legislation, not as important as this, though, have been cancelled in order to accommodate this legislation.

Our first witness is a highly respected, well-recognized union leader, Mr. Leonard Woodcock, president of the United Automobile, Aerospace and Agricultural Implement Workers of America.

I extend to you, Mr. Woodcock, a most cordial welcome and look forward with great anticipation to your comments.

Mr. WOODCOCK. Thank you very much.

With your permission, I would like to file the full statement so that I do not have to read it.

Mr. DANIELS. I ask unanimous consent that Mr. Woodcock's statement be incorporated in the record in full at this point.

[The statement referred to follows:]

PREPARED STATEMENT OF LEONARD WOODCOCK, PRESIDENT, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

My name is Leonard Woodcock. I am president of the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). The UAW is a labor union with over 1.4 million members, organized into 1,650 local unions throughout the United States and Canada.

I appreciate this opportunity to urge your Committee, and the entire Congress, to speedily enact the Full Employment and Balanced Growth Act of 1976, as proposed in the current (March 10, 1976) version of HR 50.

My views in favor of, and long-standing support for, full employment and democratic national economic planning legislation are well known and have been presented to the Congress on several occasions. Therefore, today I shall confine my comments to three matters:

Recent UAW Convention action on the proposed Act;

The "non-economic" consequences of our failure to achieve full employment; and

The need for speedy congressional passage of the bill before your Committee.

On March 18, the UAW held a Special Collective Bargaining Convention since we will be involved in major negotiations later this year. That Convention was attended by about 2,600 delegates from every section of the country. Recognizing that the achievement of full employment is of the utmost importance to UAW members—in their capacity as workers and as citizens—the Convention considered, as one of its first items of business, and unanimously adopted, the following resolution, entitled: "Full Employment and National Economic Planning":

The opportunity to find a job at decent pay must be made a fundamental economic right. A worker without a job is robbed of his human dignity and the chance to enjoy self-fulfillment.

Persistent unemployment is a pervasive problem in the nation which impinges on all other social ills. Being without a job and without the hope of finding a job erodes confidence in our way of life, generates insecurity and is an economic dead-weight amounting to billions of dollars in lost goods and services.

A full employment economy is in the best interests of employers, since those who earn are the customers who purchase the goods and services offered by the employers. It is in the best interests of the workers because their job security and the enhancement of their standard of living depend on having a job and the economic security that goes with it. It is in the interests of the nation as a whole because full employment is essential for economic stability and social tranquility. Full employment is the key to a general prosperity, with full production, a stable economy and a government with a social conscience.

For nearly three decades the Full Employment Act of 1946 has promised but never mandated a national policy of full employment. The millions of the chronically unemployed and the millions of cyclically unemployed are testimony to the failure of our nation to move beyond stated policy to the actual implementation of a full employment program.

Moreover, the past three decades have also seen the use of a sophisticated "numbers game" whereby "full employment" is defined as an ever-increasing percentage of unemployment. Involuntary unemployment is morally unacceptable in a democratic society which takes pride in its political Bill of Rights but fails to guarantee an economic Bill of Rights to its people.

Those of little faith and even less compassion argue that full employment cannot be achieved without substantial rates of inflation. We maintain that full employment and inflation are not inseparable partners. Indeed, genuine full employment will help to fight inflation and make possible an ever-increasing improvement in the quality of life.

For years now, only lip-service has been given to the notion of a full employment economy. Except in war time, the nation has never mustered its economic will to eradicate unemployment. In fact, however, fulfillment of the goal of full employment can be achieved.

Proposed legislation, known as the Hawkins-Humphrey bill, has been introduced in the House (HR 50) and Senate (S 50). Its title is the "Full Employment and Balanced Growth Act of 1976." The most recent (March 10, 1976) version of that bill provides the basis for effective legislative action.

It specifies that every adult able, willing and seeking to work has a right to useful employment at a fair rate of compensation. The federal government is to take action so that their unemployment rate will not be more than 3 percent, and to achieve that within 4 years. In addition, the federal government is to undertake special programs aimed at unemployment among young people.

The bill recognizes that traditional government activity—through fiscal and monetary policy—has not been sufficient to achieve and maintain full employment, and provides that supplementary employment policies are to be utilized. These policies would include public service employment, public works, grants to state and local government, and other activity aimed at cyclical and structural unemployment.

A most important feature of the bill is that it specifies procedures for democratic national economic planning to achieve full employment as well as other important social goals such as: development of energy, transportation, food, small business, and environmental improvement programs; improved health care, education, day care, and housing; etc.

In short, the Hawkins-Humphrey bill would clearly establish a national full employment policy, and would create the mechanisms needed to implement that. Further improvements could be made in the bill, that is true of every piece of legislation; nevertheless its enactment would be a true breakthrough in the struggle for economic justice. Many individuals and groups—including UAW and AFL-CIO leaders—have participated in the development of this bill. Therefore, it is expected that support for the bill will be widespread and enthusiastic.

The UAW will make a major effort, by every level of the Union, in the U.S., to bring about speedy passage of the Full Employment and Balanced Growth Act of 1976.

The UAW fully supports the principles and provisions of that Act as set forth in the Hawkins-Humphrey bill (HR 50 and S 50). We will support feasible proposals which would further improve the bill, but such activity must not be allowed to substantially delay congressional action. Now is the time for enactment of effective full employment legislation; nothing could be a better bicentennial event.

A national petition drive to secure widespread individual endorsement of the Act has been initiated by the National Committee for Full Employment. The UAW endorses that petition drive and will participate in that effort.

I am sure that the members of this Committee are well aware of the unemployment statistics, and the various economic consequences of failing to achieve full employment. Therefore, instead of taking your time to review those data, want to emphasize some of the "non-economic" consequences. Because they cannot be summarized in a few numbers, they are less often cited but are no less significant.

Virtually every day, I receive letters at my office in Detroit from workers who have been put on indefinite layoff by the auto companies. Their stories drive home the horrible reality of the Nixon-Ford recession.

Families are being broken up because of the incredible psychological strain—the loss of dignity and self-worth—that occurs when a worker can no longer bring home the paycheck that feeds and clothes the family.

We've seen an increase in drinking and drug abuse problems that's very alarming. Take the city of Flint, Michigan, for example, where auto workers fought the tough sit-down strike against General Motors that led to the formation of our Union. Within the last year, during which unemployment at times hit 20 percent in Flint, it became the city with the highest rate of alcoholism in the country. Officials there have reported alcoholic treatment programs are 150 percent above the norms, with more than 77,000 family members touched by alcoholism. The drug treatment center there reports a new caseload twice what was projected for 1975.

Other statistics are just as alarming. Child abuse, for example, has risen seriously during this economic crisis. In 1973, when 9.6 million cars were produced in this country, cities like Flint had relatively high employment. In that year, there were 84 confirmed cases of child abuse. As we began to plummet into the recession-depression, there were 112 cases in 1974. Last year, with unemployment hitting 20 percent in Flint, and auto production down to 6.7 million there were 230 child abuse cases—more than twice as many as 1973. The experts tell us these cases often are not the result of serious mental problems. Let me share with you the words of a young social worker in Flint, quoted in a recent issue of The Progressive (Feb. 1976) magazine:

"The story has become so common in Flint, it would be a cliche if it wasn't so terribly sad. The man has been employed for maybe ten years. He had a decent income, a modest house, perhaps even a camper and lots of payments. He had debts, sure, but he also had hope. Then came the layoffs. Still, he didn't worry. He had unemployment compensation and union benefits and felt he would be called back before long.

"But he didn't get called back and the special benefits ran out. He lived by the skin of his teeth even in good times, because there was always something to pay for. And now it gets worse and his optimism fades. He's around the house almost all day and he has fixed everything in sight. Something goes out of the family because he's around. He sees the kids when they are dirty and noisy and misbehaving. And they don't pay him the same attention they used to when they greeted him at the door when he came home from work.

"He had always had the disciplinary role around the house. He was the boss, the breadwinner. So his relationship with his wife changes. He bosses her around and demands she bring him a beer because he has to prove that he's still the man of the house. . . . In a situation like that, everybody in the house gets bent out of shape."

This young caseworker in Flint, Greg Hiliker, goes on:

"I don't know how many cases I've had where the father admits that what his child did would normally not have been cause for a reprimand. Or it would be overlooked. But in the house of the unemployed, there is so much tension it's like striking a match in a room full of gas fumes. The child misbehaves, the father loses his temper and smacks much harder than he intended. There is no evidence of sadism or serious emotional illness in most of the child-beating cases we have been seeing. . . . The hospital or the doctor shows me a child covered with bruises and when I ask the parents what happened, the father breaks down and tells me he did it. He says over and over again that he's sorry, that he simply lost control, that if he could only find a job he would make it up to the child.

It may sound crazy, but most of the child beaters are concerned and loving fathers. And in a way they are driven to childbeating because they are."

We are seeing other evidence of the incredible human toll behind those unemployment statistics, too. Our experience in Flint is not a statistical abberration. National statistics from the Center for the Preventive and Treatment of Child Abuse and Neglect, for example, report that across the country child abuse cases increased 36 percent—from 280 cases per million population in 1972 to 380 in 1974. Another national study reveals that nearly 60 percent of abusive fathers were out of work at the time of the abuse or had been unemployed during the immediate year before abuse occurred.

The Division of Biometry at the National Institute of Mental Health recently circulated a private report to a select group of psychiatrists and psychologists around the country alerting them to expect a major increase in the mental hospital and jail populations as the result of unemployment. Other studies by respected scholars and institutions point to similar patterns.

Dr. M. Harvey Brenner, a John Hopkins University professor, recently testified before the Joint Economic Committee of the Congress. He detailed the kinds of stresses brought on by unemployment—the hormonal, physiological and psychological changes that do damage to the body. His study shows a clear link between health and recession over the last 70 years. In periods of downturn in the economy, we see correlating increases in heart attacks, cirrhosis, alcohol abuse, suicide, infant mortality and mental illness.

Dr. Brenner predicts we will be paying for the effects of the recession for years in the future, because there is a delayed reaction inherent in certain types of health problems, such as heart disease based on stress and resultant high blood pressure. His study indicates our nation can expect the following increases in recession-related disorders:

A 15 to 25 percent increase in heart attack deaths.
A 30 to 35 percent increase in alcoholism.
A 15 to 20 percent increase in the infant death rate.
A 15 to 100 percent increase in mental disorders.
A 15 to 25 percent increase in suicides.

In short, unemployment is not merely being out of work. It is a disease which society must attack with the same vigor and public effort that was directed against malaria, polio, and other ills.

We cannot follow the President's prescription of stimulating the business sector, and the well-to-do, in the hopes that will eventually help others. The job of rescuing the unemployed, and simulantously absorbing the growth of the workforce, cannot be handled by the private sector alone. In addition to the historical causes of labor force growth—primarily increased population, such as the baby boom following World War II which will continue to affect the workforce for several years—we have the more recent phenonemon of increase participation of women. While that has already had substantial effect, remember that even now, only about half of all women of working age are actually seeking employment. Thus, there can be large and rapid increases in the size of the workforce if the female participation rate grows significantly. We must utilize public service employment, and other programs directly aimed at providing employment, rather than hoping for sufficient growth in private employment.

While some may view this as a problem, I see it as an opportunity. Full utilization of our labor force, plants and equipment, and resources can provide the goods and services to attack many social problems. It is a plain fact that we make progress in an expanding economy and that minorities, the powerless and the poor are the real victims of a contracting economy. When times are "good," the society is more willing to share its abundance and redress its wrongs. When things are "bad," individual elements of society are concerned more with self-preservation than with social improvement.

The current version of HR 50 recognizes this need to go beyond the traditional tools of fiscal and monetary policy. It provides for democratic national economic planning, and the use of public employment activities.

I am well aware that the Congress will receive criticism of the bill from many quarters. Some from those who oppose the concept and would like to see it defeated or at least weakened. Criticism will also come from those who genuinely favor the concept, but would like to see it strengthened. In my judgment, the time has come for congressional passage of this bill, in order to firmly declare (as set out in the preamble to the bill) the national commitment "To establish and translate into practical reality the right of all adult

Americans able, willing, and seeking to work to full opportunity for useful paid employment at fair rates of compensation. . . ."

Of course, subsequent legislation will be needed to proceed along the road to full employment. In addition, hard work must be done by the Executive branch to comply with its mandates under the Act; unfortunately, we are not likely to get that from the present Administration, since it has specified that its own goals would permit unemployment to stay over 5 percent during the next presidential term. That is simply another reason why the American people must elect a new administration which will be responsive to the overwhelming majority of the population, who have indicated consistently in public opinion polls that they believe the government should guarantee jobs for all who want to work.

The fact that this bill does not detail the total attack on unemployment is no reason to delay action further. We, in the UAW, have similar experiences in collective bargaining; another part of the resolution adopted by our recent Convention pointed out that our technique has been "achieving an innovative breakthrough in an important area of worker concern, establishing a firm base, and then in subsequent negotiations, building on this sound foundation." The legislative process is similar. The current version of HR 50 is the product of hard work by many dedicated to the achievement of full employment. It is the innovative breakthrough and foundation to support future action.

Additional modification of the bill is not needed now. Now is the time for Congress to indicate its approval of the foundation; we can then work together to build on that.

STATEMENT OF LEONARD WOODCOCK, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, ACCOMPANIED BY DICK WARDEN, LEGISLATIVE DIRECTOR, UAW

Mr. Woodcock. My name is Leonard Woodcock. I am accompanied by Dick Warden, the UAW's Legislative Director. We have approximately 1.4 million active members organized into 1,650 local unions throughout the United States and Canada.

I appreciate, Mr. Chairman, this opportunity to urge your committee and the entire Congress to speedily enact the Full Employment and Balanced Growth Act of 1976 as proposed in the current version of H.R. 50.

I want to say I am also here today to testify in support of our system of private enterprise, properly managed. Two weeks ago, we had a convention of 2,600 delegates who unanimously passed the resolution in support of H.R. 50.

I would also like to address myself to the noneconomic consequences of unemployment.

Virtually every day I receive letters in my office in Detroit from workers who have have been put on indefinite layoff. Their stories drive home the horrible reality of the Nixon-Ford recession.

Families are being broken up because of the incredible psychological strain—the loss of dignity and self-worth—that occurs when a worker can no longer bring home the paycheck that feeds and clothes the family.

We have seen an increase in drinking and drug abuse problems that are very alarming. Take the city of Flint, Michigan, for example, where auto workers fought the tough sitdown strike against General Motors that led to the formation of our union. Within the last year, during which unemployment at times hit 20 percent in Flint, it became the city with the highest rate of alcoholism in the country.

Officials there have reported alcoholic treatment programs are 150 percent above the norm, with more than 77,000 family members touched by alcoholism. The drug treatment center there reports a new caseload twice what was projected for 1975.

Other statistics are just as alarming. Child abuse, for example, has risen seriously during this economic crisis.

A young social worker in Flint said:

> I do not know how many cases I have had where the father admits that what his child did would normally not have been cause for a reprimand. Or it would be overlooked. But in the house of the unemployed, there is so much tension it is like striking a match in a room full of gas fumes. The child misbehaves, the father loses his temper and smacks much harder than he intended.
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> There is no evidence of sadism or serious emotional illness in most of the child-beating cases we have been seeing. The hospital or the doctor shows me a child covered with bruises and when I ask the parents what happened, the father breaks down and tells me he did it. He says over and over again that he's sorry, that he simply lost control, that if he could only find a job he would make it up to the child.
>
> It may sound crazy, but most of the child beaters are concerned and loving fathers. And in a way they are driven to child-beating because they are.

I regret we have a Chief Executive who says we need to be more concerned with the 90 percent working than worry about the 10 percent who are not working.

Our experience in Flint is not a statistical abberation. National statistics from the center for the prevention and treatment of child abuse and neglect, for example, report that across the country child abuse cases increased 36 percent—from 280 cases per million population in 1972 to 380 in 1974. Another national study reveals that nearly 60 percent of abusive fathers were out of work at the time of the abuse or had been unemployed during the immediate year before abuse occurred.

Dr. M. Harvey Brenner, a John Hopkins University professor, recently testified before the Joint Economic Committee of the Congress. Dr. Brenner predicts we will pay for the effects of the recession for years in the future, because there is a delayed reaction inherent in certain types of health problems, such as heart disease based on stress and resultant high blood pressure.

His study indicates our Nation can expect the following increases in recession-related disorders: a 15 to 25 percent increase in heart attack deaths; a 30 to 35 percent increase in alcoholism; a 15 to 20 percent increase in the infant death rate; a 15 to 100 percent increase in mental disorders; a 15 to 25 percent increase in suicides.

In short, unemployment is not merely being out of work. It is a disease which society must attack with the same vigor and public effort that was directed against malaria, polio and other ills. The index says it is 7.6 percent.

Mr. DANIELS. I understand it was announced over the air that there was a further decrease from 7.6 to 7.5 percent.

Mr. WOODCOCK. I think that is coincidental to the next point I was going to make.

In 1958, the worst recession we had had since the great depression until this one, unemployment in that recession peaked at 7.5 percent. I might say, it took over 5 years to get below 5 percent, although the economy in that period grew by 25 percent.

We have another curiosity. The percentage of the adult population, I mean those over the age of 16, that are now employed, is close to the average that we have had post-World War II. Obviously, there is a reason for that.

In 1947, women constituted 31 percent of the work force. Today, they constitute 47 percent of the work force. Obviously, that should be a good thing. The Nation should not be weaker because more are willing to work. The fact that more are willing to work represents a tremendous opportunity to improve the quality of life and the wealth of the Nation.

Two weeks ago, *Business Week* magazine had a remarkable piece on our employment/unemployment problem. They said the old policies had failed. They also said that the private sector cannot do the entire job.

You know, when we look at the overall figure among blacks and other minorities, the unemployment rate is 13.7 percent; among all teenagers, 19.2 percent; among black teenagers, 35.2 percent; below the age of 25, 16.1 percent including tens of thousands that this Nation ordered into Vietnam.

These are young people not learning the discipline of work, and if it goes into their midtwenties and beyond, we are going to have on our hands a new lost generation. We also have the associated problem of plant closings and abandonments, because we have, in that sector of our economy, a laissez-faire situation where management can just move away, dependent upon their own decision, move away from communities, move away from workers who have been with them for 20 or 30 years. Particularly, too, in the case of conglomerates—and interestingly enough usually moving to the new locations with the aid of governmental subsidies.

Take the situation with regard to bankruptcies, W. T. Grant, or important competition. When specialty steel workers are abandoned in their fifties despite 20 and 30 years of faithful work, how do they get other jobs?

I get letters because we have dozen, literally dozens, of plants that have been closed by one situation or another, and they are from desperate men and women.

We are told we cannot go down this road, because look at Britain. I want to say that the policies of the labor government in Britain have been primarily nationalization and the bailing out of inefficient enterprises, which has created a disturbing economic situation in that country today.

But I point out to you the example of Sweden. True, Sweden has had, for 40 years, a social-democratic government, but 97 percent of the Swedish economy is private enterprise, if you include cooperatives as private enterprise, and they certainly belong there, 97 percent, a greater percentage than we have in this country.

They have within that economy sharp competition. They do not protect the inefficient.

Last year, their unemployment rate, despite a worldwide recession, was 1.7 percent, actually lower than 1974. We have heard talk this morning about shortages. A part of the Swedish system is to anticipate shortages that arise as the economy expands and certain products become in short supply, and they subsidize in the private sector the creation of the manufacturing capacity, or whatever, for those items expected to be in short supply, so as the economy grows, they have a reserve stock to meet the situation.

They have accomplished this with a substantially smaller inflation rate than we have. I emphasize, inefficient enterprises are not bailed out, but the workers displaced in those inefficient enterprises are retrained, relocated, if necessary, and reemployed.

Full employment can be an attainable policy. The full utilization of our labor force, plants and equipment and resources, can provide the goods and services to attack many social problems. It is a plain fact that we make progress in an expanding economy and that minorities, the powerless and the poor are the real victims of a contracting economy. When times are "good," the society is more willing to share its abundance and redress its wrongs. When things are "bad," individual elements of society are concerned more with self-preservation than social improvement.

May I refer to the question of under-utilization of our capacity and inflation. The recession of 1958 was the first time our economy had the twin elements of rising unemployment and rising inflation. In the past, the classical remedy for inflation was to increase unemployment and rising inflation. In the past, the classical remedy for inflation was to increase unemployment, which Mr. Nixon deliberately did after he became President.

Now, we have rising inflation and rising unemployment. That is because for the most part in our system, prices are not set by the laws of supply and demand, but are administered prices set in the corporate board rooms based upon cost of operation plus an X percent target rate of profit.

So, as the capacity utilization of the enterprise falls, unit costs inevitably rise. Unit overhead costs rise, costs that cannot be reduced. You can throw the production workers out on the street, but there are overhead costs per unit produced, and under the administration pricing system, there is an increase of price to maintain profit margins, so inflation accompanies unemployment.

As capacity is more fully utilized, productivity rises. Under the administered pricing system, prices would tend to fall, and this would be counter-inflationary.

The current version of H.R. 50 recognizes the need to go beyond the traditional tools of fiscal and monetary policy. It provides for democratic national economic planning, and the use of public employment activities.

I am well aware that the Congress will receive criticism of the bill from many quarters, some from those who oppose the concept and would like to see it defeated or at least weakened. Criticism will also come from those who genuinely favor the concept, but would like to see it strengthened.

In my judgment, the time has come for congressional passage of this bill, in order to firmly declare (as set out in the preamble to the bill) the national commitment:

> **To establish and translate into practical reality the right of all adult Americans able, willing and seeking to work to full opportunity for useful paid employment at fair rates of compensation.**

Of course, subsequent legislation will be needed to proceed along the road to full employment. In addition, hard work must be done by the Executive branch to comply with its mandates under the act; unfortunately, we are not likely to get that from the present Administration, since it has specified that its own goals would permit unemployment to stay over 5 percent during the next presidential term.

That is assuming no recurrence of inflation. That is simply another reason why the American people must elect a new Administration which will be responsive to the overwhelming majority of the population, who have indicated consistently in public opinion polls that they believe the government should guarantee jobs for all who want to work.

The fact that this bill does not detail the total attack on unemployment is no reason to delay action further. We, in the UAW, have similar experiences in collective bargaining; another part of the resolution adopted by our recent Convention pointed out that our technique has been "achieving an innovative breakthrough in an important area of worker concern, establishing a firm base, and then in subsequent negotiations, building on this sound foundation."

The legislative process is similar. The current version of H.R. 50 is the product of hard work by many dedicated to the achievement of full employment. It is the innovative breakthrough and foundation to support future action.

Additional modification of the bill is not needed now. Now is the time for Congress to indicate its approval of the foundation; we can then work together to build on that.

Mr. Daniels. Thank you, Mr. Woodcock, for a very fine and informative statement.

The Chair has a few questions to ask of you. I am going to impose the 5-minute rule, that I have been apt to do as serving as chairman of this subcommittee in the past. We will have a second go-around for our colleagues.

H.R. 50 provides a goal of attaining 3 percent unemployment to be achieved in 4 years of enactment. Do you think that this 3 percent goal is a reasonable target and attainable within the period?

Mr. Woodcock. I certainly think it is attainable. I hope it would not be a permanent goal, because I consider the frictional level of unemployment to be something less than that, but I support it as a goal over this time period.

Mr. Daniels. As president of the United Auto Workers, I am sure you are aware of the effects of regional and cyclical unemployment. Do you think that H.R. 50, specifically under section 204, which is page 27 of the bill, regional and structural employment policies, would help the members of your organization, as well as other workers in a similar position?

Mr. Woodcock. What page is that, sir?

Mr. Daniels. Page 27.

Mr. Woodcock. Yes, it most certainly would if there were cyclical downturns, and historically, our industry has always had these, although there was a period in the early 1960's when that largely disappeared during the time, as Congressman O'Hara said, that we had reasonable price stability.

Assuming the cyclical behavior of the private economy, this would be of great help, and it would not be makework, it would not be leaf raking and the rest. This Nation has most shamefully neglected its public sector of any country of which I have any knowledge.

Mr. **Daniels**. On page 4 of the bill, under general findings, the statement is made that high unemployment often increases inflation by diminishing labor, training and skills.

What has been your experience with the relationship between high unemployment and inflation?

Mr. **Woodcock**. It goes on. I fully agree with this statement.

It says diminishing of labor training and skills. These are bound to be directly affected when a man or woman is long without work. without the discipline of work, plus the psychological impact that my statement addresses itself to.

The underutilization of capital resources is definitely inflationary, and when we have high unemployment and recessionary periods, the rate of productivity always drops and it increases as we begin to recover.

High unemployment, without question, increases unit labor costs because productivity drops. This is nothing at all unusual, not because people begin to work less hard, but because the overhead burden rises and the cost per unit produced, as you have underutilization of capacity, thereby increases.

Mr. **Daniels**. Mr. Woodcock, on page 12 of the bill, there is a list of priorities to achieve full unemployment and balanced growth. They are listed as follows: development of energy transportation, small business improvement policies, and programs required for full employment and balanced economic growth and requires also to combat inflation meeting meaningful economic levels of demand.

Do you feel that we should attend to these priorities in the order listed here, or in any other manner?

Mr. **Woodcock**. As I read the bill, as I understand it, I do not look upon this as priority No. 1, and then, that having been achieved, we move to Nos. 2 3. It would be an attack upon all of them, as I understand it. I am in full support of what is set out there.

Mr. **Daniels**. Do you think that this should be a full and exclusive list of priorities, or other considerations and priorities added to it as time goes on?

Mr. **Woodcock**. Item 5 provides for that: such other priorities, policies and programs that the President deems appropriate.

Mr. **Daniels**. Are there any particular priorities that you would like to see added to it?

Mr. **Woodcock**. Those that I am the most concerned about currently are in items 1 through 4.

Mr. **Daniels**. I now recognize my distinguished colleague from Connecticut, Mr. Sarasin.

Do you have any questions?

Mr. **Sarasin**: Thank you, Mr. Chairman, and thank you, Mr. Woodcock for your statement before us this morning. In spite of my earlier comments, I think we share the same goals, and that is to get to as low a rate of unemployment as possible. I would think under 3 percent is certainly most desirable; I just disagree in the method by which we would be attempting to do it through this particular legislation.

You mentioned in your statement the difficulty of any business when faced with a lag in sales and attempting to cut back. In other words, it is often easier to cut out the employee than reduce other elements of overhead.

As I understood your comment, you said that prices are established in the board room by determining cost of production and adding profit, and so forth. I do not know of any other way of doing it.

Were you suggesting that there should be a different way of handling that?

Mr. Woodcock. No, you cannot sell automobiles as you might sell apples, having the price go up and down like a yo-yo, hour to hour, day to day, but it is a fact of life that General Motors Corp.'s pricing policy is to set the price of the end product based upon the production of 180 days a year, 36 5-day weeks, to yield a return, after taxes, after all expenses, of 20 percent on the net investment, which means in 5 years, and over time they have actually met that goal, they are making in net profits an amount equal to the assets of the business when the 5-year cycle began.

Mr. Sarasin. Are you saying General Motors is making too much by way of profit than they should?

Mr. Woodcock. I think the 20 percent net profit target is far too high.

Mr. Sarasin. We live in a real world, Mr. Woodcock. Are they making too much by way of profit, when we look at the need for reinvestment, the need for return to the investors, the need to keep the operation going?

Mr. Woodcock. General Motors can have the target as high as it has because of market dominance and its acknowledged great efficiency.

Mr. Sarasin. That great efficiency is, in large measure, due to the productive efforts of your union. It can only exist as an entity as long as it is a healthy economic entity, and employment depends upon it.

Mr. Woodcock. I am not opposed to investment. I am completely supportive of this system. I am not completely supportive of a system that is going to cow-tow to the private sector and say to millions of our people, you stand outside the economy, we will not worry about you, as long as we have 90 percent on our side, we do not need to worry about the 10 percent. We cannot keep a democratic system with that.

Mr. Sarasin. I do not agree with your characterization of what is being said here.

Let me go to something else you mentioned. You talked about the great effort made in Sweden: low unemployment, which certainly is very good, if the figure of 1.7 percent is as you stated with 97 percent of the economy being engaged in private enterprise.

It is also my understanding, in regard to Sweden, that the government applies very little tax burden to business and industry and instead, shifts it to the individual, so that the individual is paying almost 70 percent of his income in taxes to the government to run this great, utopian operation.

I do not think, when we look at our own situation, where the tax burden is probably somewhere around 10, 11 percent per capita, that we would like to get to that. I do not think the people of this country would like that, in exchange for all of the great things that are supposed to be in this particular piece of legislation.

Mr. **Woodcock**. I have never heard or seen such figures, where the Swedish 70 percent relates to a 10 or 11 percent. There is a greater personal tax burden, yes, but they get a much greater return in governmental services for that, much greater—in Sweden, you know, when a guy loses his job, at the end of the month in which he loses his job and he loses his health care protection and he is a father with a nonworking wife and three small kids at home, he does not have to make the agonizing decision, should I let my health care premium lapse and trust they will stay healthy until I get back to work, or shall I pay that, and possibly run the risk of not being able to meet the mortgage payment 5 months from now.

That is not a civilized country that pushes such decisions on individuals. The Swedish system does have an imaginative use of the tax codes and tax system to help private industry. I wish we had it.

Mr. **Sarasin**. I wish we had it too. I think we tend to go the wrong way.

I am wondering whether we are being honest with the people if we are telling them we can give them all of these things and not tell them about the hooker. The hooker is that they may have to pay 70 percent of their income back to the Government in taxes.

Mr. **Woodcock**. I continue to reject your 70 percent without seeing some supporting data.

Let me say one thing in this regard. We talk about the investment tax credit which is supposed to help capital formation and the making of jobs, yet when this was first debated, or debated again in 1971, the then-chairman of the General Motors Corp. said GM does not make its decisions on capital investment based on the ups and downs of the tax code, but based on the anticipated needs of the market.

GM says, we do not need it. It will make no difference to our behavior. But Congress and the administration insisted that GM, too, had to get the benefit of the 7 percent.

That is a waste of money; that is a thorough waste of money.

Mr. **Sarasin**. I suppose we could spend a good deal of time on that subject.

In your statement, Mr. Woodcock, you referred several times to democratic national planning. I am not really convinced that it would be all that democratic.

You also say that there is a further need for legislation—please correct me if I am wrong—to proceed along the road of full employment.

I am curious to know where you think we would have to go after the enactment of this legislation. What should be the next step or steps?

Mr. WOODCOCK. What I am trying to say, sir, is rather than try to make a perfect instrument, that we put the foundation in place, and then on the basis of experience we make the necessary additional changes to respond to new circumstances.

Let me say why I always say democratic national economic planning. You refer to shortages. We live in a world where increasingly we are going to have shortages. We live in a world where we are increasingly dependent on the outside world.

I might say of the inflation of 1972 through 1974, the domestic inflation was never double-digit but the import inflation was over 23 percent, and that brought us to double-digit inflation. I am convinced that to deal with the shortages as they crowd in on us more and more, we are going to have national planning.

The question is, for whose benefit. Is it going to be for the corporate structure, or for the benefit of the Nation and the Nation's people?

Mr. SARASIN. My impression of a corporation, or of any business entity, is that it is only a conduit, and it is people who pay taxes—people who really carry the burden.

My time is up.

Mr. DANIELS. Your time is up. I hope there will be time for a second round.

I recognize Mr. O'Hara.

Mr. O'HARA. Thank you very much, Mr. Chairman.

Mr. Woodcock, as you know, I have just finished about a week of morning and afternoon and evening sessions of the House Committee on the Budget, where we are trying to put together a much more sensible congressional budget document than the one that was proposed by the White House.

I was very interested in your observations about some of the causes of our current unemployment, particularly the situation in which we find price increases in the midst of unemployment. One of the arguments that I kept running into on the Budget Committee was, if we did anything to help the unemployed, if we did anything to put people back to work in the public or private sector by increasing demand or by public service employment, that this would cause a raging inflationary spiral, that this would be a great disadvantage to the 90 percent who are currently working because all of a sudden the price of everything they have to buy would go through the ceiling.

I like very much what you have to say, what you are pointing out, that we are not in a classic inflation situation where we have excess demand, full utilization of our production capacity, full utilization of our labor force and excess demand driving up the price of the things that we produce, because we just cannot produce any more.

If that were the situation, we would be in a trade-off problem, where, if we tried to put more people to work or increase demand further we would have a trade-off with price increases, but I rather like the theory that you put forward and others have put forward.

as some of us did on the Budget Committee, that is, that our price increases that we have suffered are, to a large extent, the product not of increased demand but decreasing demand and the higher unit costs that are involved when production goes down, when you have fixed overhead costs.

Production goes down because demand went down, and unit costs go up, and, because they are able, as Mr. Sarasin suggests and you have suggested, to determine the price based on the unit cost rather than on the demand, the price goes up, and we have the situation that we now see.

That has been my theory of what has gone wrong. It is when you have administered prices—and you recall Senator Paul Douglas's pioneering work in that regard. Now, our problem is that we do not have enough demand in the economy. What we have to do is build this demand, raise production. The way we do that is putting people back to work and making sure they have the wherewithal to buy the output of our mills, our factories, our fields.

I would like you to expand on that theme a little bit.

Mr. WOODCOCK. Ten years ago, I think that we did have a demand-push inflation. We did have that, and we did not properly respond to the escalation of the war in Vietnam.

Mr. O'HARA. We should have enacted that tax increase before we did.

Mr. WOODCOCK. Part of the problems we are still suffering today are products of that. We are not in that kind of situation today.

It is very popular to attack government spending—I am not referring to either side of the aisle, because this popularity is affecting both parties. Government is not very popular with the American people today. It is not hard to understand—Watergate, Vietnam, now there is even corrupt practices of the leading corporations, the antics of the FBI, the CIA. It is a marvel that the American people are in as good a shape as they are.

The public opinion polls show that if you ask if people are against governmental programs; they say yes. If you ask, "What would you think about this governmental program, they answer "oh, that is all right."

The fact that programs have been mismanaged and have not met popular goals does not mean that we have to say that there is not a function for the Federal Government and a function that is clearly in line with what the Constitution says, and the Declaration of Independence says.

That is why I hope one of the products of the bicentennial year will be this legislation.

Mr. O'HARA. I think that is a fine monument, if we could enact this during the bicentennial year and override the veto that I would anticipate.

We are confronting a recordmaker in the White House. He has set an alltime record for vetoes. I am afraid that we may have such a problem.

Mr. WOODCOCK. I would anticipate that, sir, and maybe this is a progressive disease, when I hear that even the Defense budget may be vetoed. I do not know quite how the Kremlin is reacting to that.

Mr. O'HARA. I thank the distinguished witness and assure him that I will do everything I can to help push this legislation.

Thank you, Mr. Chairman.

Mr. DANIELS. The gentleman from Rhode Island, Mr. Beard.

Mr. BEARD. Thank you, Mr. Chairman.

Mr. Woodcock, I certainly appreciate the fact that a recognized national leader has taken the time to come here today to bring a message on behalf of the millions of people in this country out of work, plus the thousands upon thousands of people who are presently working but could very well be out of work, if we do not proceed with some worthwhile legislation in this Congress. I appreciate your comments and your interest, and I would hope that all of the national leaders in the labor forces of this country would do likewise, bring the voice of the millions that they represent collectively to the Congress and to the White House. The people are tired of being out of work, and they want to see this country being treated as we treat other countries around the world.

Mr. WOODCOCK. May I say, for the Full Employment Action Council there is a wide spectrum of support. The cochairpersons are Coretta King and Murrey Finley, the president of the Amalgamated Clothing Workers.

Mr. BEARD. Thank you.

Mr. DANIELS. I recognize the distinguished author of the bill, the gentleman from California, Mr. Hawkins.

Mr. HAWKINS. Thank you, Mr. Chairman.

Mr. Woodcock, returning to page 4 of the bill and to paragraph 1 that was quoted in part, but I think the rest of it was not, that dealt with line 16 on page 4 of the bill, says, in addition to the other enumerated causes of inflation, the language is used that modern inflation has been due in large measure to errors in national economic policy due to the erratic monetary policy, erratic energy and food policies and effective policies to maintain competition in the private sector.

I assume in those instances, I think we have a right to assume, we are referring to some of the policies that are currently in operation, and my question to you is do you agree in substance to the formulation that the current recession, of which we are now supposed to be recovering, which may be only temporary in nature, but at least it is a mild recovery, during the election year, do you consider the 1973–74, which was a trough of the recession, to be something that could have been avoided but was largely due to errors in national economic policy, the erratic monetary and fiscal policies, and to the failure to be able to administer prices and control high interest rates?

I am asking you to comment on that particular section of the bill.

Mr. WOODCOCK. That is a very large question.

One cannot look at the experience of 1973–74 without reacting to the central point of that, that is the oil embargo and the quadrupling of petroleum prices by OPEC.

Certainly, I think this is the only nation that relies entirely on the private sector. Here we have a group of oligopolistic oil companies which for years exploited the oil-producing nations for their own benefit and now are the happy hand maidens of the OPEC cartel, to carry out the cartel's objectives, as well as their own private objectives.

When the oil embargo hit and the initial disaster for the auto industry, I came down here to Washington to find out what is happening, what is going to happen?

I found 62 separate agencies dealing with energy, without consultation, without coordination, sometimes at cross-purposes.

There were only two places that I could find any possible answers: the American Petroleum Institute, whose answers must at least be suspect, and the energy economics section of Chase Manhattan Bank, and that figures, too. They were the only two places in this country you could get any sort of notion. That is sheer governmental folly.

Yet, 2 years after that, more than 2 years after that, we have taken no steps. We are more dependent now on foreign energy sources than we were during the period of the oil embargo, and monetary policy is these days, in the hands of Arthur Burns, whom President Meany has described as a national disaster, certainly that is undue power in one man's hands, and I do not think that policy has been too well planned. Certainly, if you look at the question of food policy and go back to 1972 when we stripped our cupboards to give it away to the Soviet Union at the expense of the farmers, then there was a tremendous upsurge of food prices.

There are so many items of irresponsibility and inefficiency in national economic policy in the last few years that much stronger language could be used.

Mr. HAWKINS. Do you agree that the Administration's posture of advocating a cutback in priority of domestic needs on the basis that the problem is excessive Federal spending, that it is necessary to continue the so-called trade-off theory of continuing high levels of unemployment and that prolonging recovery on the basis that it is a cause of inflation, are misdirected policies that are not really, in effect, attacking the inflation but are rather calling attention to the wrong causes, and therefore distracting us from any basic attack on the real causes of inflation.

Let me state it another way.

Have you heard anything from the Administration about administered prices, anything from the Administration about monopolistic practices? Anything from the Administration which would attack in any way high interest rates, certainly inflationary, or any of the other real causes of inflation?

Mr. WOODCOCK. I cannot say that I have, sir.

Going back to 1971, we had the Price Commission in place. The initial rules of the Price Commission said, if any enterprise wished to get a price increase, they had to justify that price increase by bringing forward productivity figures.

The automobile companies were the exception. When General Motors came down for price increases, they maintained to the Price Commission, as they have maintained to the UAW over the years that they do not know what their productivity is.

They know what the cost of a screw is to the third decimal point, but they cannot add all of that up to what is their productivity, and the Price Commission changed the rules to say they did not have to produce productivity figures and instead, took simulated figures from the Bureau of Labor Statistics.

If that was not bending governmental policy to a big power center in our corporate structure, I do not know what is. That has been the whole approach of the Nixon-Ford administrations.

Mr. HAWKINS. Let me ask you this question, then.

With respect to the automibile industry, do you believe that full employment would lead to excessive or inflationary wage rates in the automobile industry?

Mr. WOODCOCK. Let me say this in answer to that; let me be frank.

I do not know how many of my colleagues would join me. If this nation goes down the road to full employment, as it has to, in my opinion, for the survival of democratic society, then the practices and attitudes of the labor movement in this country will have to change.

Each union will not be able to take its one best goal and not worry about the impact on this segment of the economy or the other. We have to do what in fact is done in Sweden. They are thoroughly organized, Sweden. The LO represent all the blue-collar workers, the TCO the white-collar workers. Those organizations, together with the industry grouping, and the government, make a determination, what can be the total pie, what are the policies to bake this bigger pie? What can be done within that to have minimal inflationary impact?

If the labor movement, and industry, do not accommodate themselves, then there will have to be measures taken to see that they do.

I would believe that they would have the good sense to see that it would be obviously to their own benefit to make that kind of accommodation.

Mr. HAWKINS. I certainly thank you for your candor that permitted you to answer that.

One final question.

Some reference was made to one individual, I think to Mr. Keyserling, the economist who was the chairman of the Economic Council during the Truman Administration as the chief architect of this bill. Certainly I would like to give him that credit, because I think he deserves a lot of credit, because he happens to be one of the few members of the Economic Council who has a good economic performance. Even Mr. Greenspan does not have such a claim.

As one who attended such a conference, I think two years ago at Columbia University, also the citizen formation of a citizen committee to which you referred, a committee for full employment.

May I ask you whether or not you believe this legislation is the sole product of the mind of any one individual, or was it a collective effort on the part of many individuals from labor, business, the Civil Rights movement, legislators, and many others, as those who participated in some of the earlier movements?

Mr. WOODCOCK. I cannot recall any legislative effort that had so many individuals and so many organizations directly, and sometimes, may I say, with a few bruises being inflicted, involved in getting where this bill now is.

Mr. **Hawkins.** Certainly, as one who was involved in that, I must confess I certainly had a lot of the bruises, due to the fact that too darned many individuals seemed to be involved at times.

Thank you very much.

Thank you, Mr. Chairman.

Mr. **Daniels.** I recognize the gentleman from Michigan, Congressman Ford.

Mr. **Ford.** Thank you.

I do not think you should be quite that harsh with Mr. Greenspan. He set out to control inflation with unemployment and proved that unemployment can make more unemployment faster than anybody who ever tried to before. He has at least taught us that that is the wrong way to do it.

One of the things that is bothersome that this legislation touches on, in a whole variety of ways, is the basic question that is really before the people now. It seems as though the incumbent President is saying I do not need the 10 percent that are unemployed to get reelected. There is not much I can do for them immediately that they would appreciate anyway. If I get a break and Wall Street tells enough newspaper columnists that things are getting good and enough large corporate presidents project a rosy future and it hits at the right time this summer, we will weather through this and if we tough it out and keep unemployment someplace reasonably close to a decent figure of 7.7 percent, that will hold the lid on inflation, then everything will work its way out.

It is hard finding any kind of precedent for it. At the base of it, what started with the Nixon Administration where we had economists openly advocating, publicly advocating without great public outcry, actually, except for people like yourself, that deliberate policies to create unemployment might be necessary to control runaway inflation.

As you pointed out, we were responding to inflationary pressures coming from outside of the country, and it had as much to do with the problem as anything that could be identified.

Now, how do we utilize the thrust of this bill to put before the American people the basic question of whether we can, in a democratic society, accept 3 percent, 4 percent, 5 percent, 6 percent, or any fixed percentage of unemployment as an acceptable level of unemployment if the objective is to control inflation?

Mr. **Woodcock.** Let me say, not simply some economist said we have to accept more unemployment as a cure-all to this problem. The President himself, Mr. Nixon, said in late 1970 or early 1971, unfortunately this bitter medicine is what I have to give to the country to correct all the ills created by the predecessor administration. It did not work.

Obviously, there is some figure that represents, in a free system, frictional unemployment. I am convinced it is below 3 percent.

You know, when we came out of World War II, we generally accepted 2 percent.

Mr. **Ford.** May I interrupt you? The 2 percent we were measuring when we came out of World War II would be considerably less than 2 percent today if we were using the same rules to do the measuring. Starting at the end of the Johnson administration, the way we did the measuring, I think we really are talking—today's 3 percent would be something higher than that in post-World War II percentage figures.

Mr. **Woodcock.** Right. Again, the numbers are not exactly consistent, but Sweden's rate last year was 1.7 percent, down from the year before. Japan consistently has below 1 percent, mostly because of their system in the private economy of life tenure, so obviously the frictional rate is considerably below 3 percent.

But I am telling our people, let us not get hung up whether it should be less than 3 percent. Let us get this show on the road.

If in 1955, when we were fighting industry to create supplemental unemployment benefit plans, and we had insisted on a perfect system, we would not have it today. We got the principal in hand, and we built on it, as time went by and means and ways were indicated.

Mr. **Ford.** The mythology, however, has taken hold, as Mr. O'Hara has mentioned, the arguments that have taken place this week in the Budget Committee. A surprising number of people cling to the idea that anything we do that succeeds too well in reducing unemployment is going to cause us a horrible price in inflation and all of the terrible things that that word means, and we seem incapable of shaking people from that firm belief that inflation is so destructive of society that we may have to take the bitter medicine that Mr. Nixon talked about.

The entire tenor of this bill, taken in its totality, it is that the central most important thing is reaching something close to whatever full employment might be, whatever definition is used, so that you are utilizing all of the productive capacity, laying aside a human consideration for it, so that you are, in fact, taking a basically industrial country and putting it back in full production, so that it does what the machinery was meant to do to work at full efficiency.

How do you see us able to approach your membership, for example, who are not themselves unemployed at the moment with an understanding of the difference between the threat to them of inflation and the threat to them through continued unemployment of their less senior members?

Mr. **Woodcock.** We have to convince people that first of all, neither Congress nor any administration, is going to balance the Federal budget and eliminate the deficit except as Americans go back to work; moving towards a full employment economy is counter-inflationary. We cannot accept these myths that sometimes are generated.

Maybe the people this fall will educate the people's representatives. I had no trouble with the members of UAW talking about these things, whether it be in the context, look, we should not have import quotas against the imports, we have to beat them at their own game, even though there are heavy periods of unemployment. You can convince them of that.

The people of this country are not stupid, they are very intelligent. There is more lack of faith in the system in this city than in any city in this whole country. That is not a universal condemnation, but there is a trend, a fad going on right now that we have just got to get turned around.

Mr. DANIELS. The gentleman's time is up.

I recognize the gentleman from Washington, Mr. Meeds. Do you have any questions?

Mr. MEEDS. Thank you, Mr. Chairman.

First, let me apologize, Mr. Woodcock, for not being here to hear your oral presentation. I have had an opportunity to look at your statement.

I am struck by the tangent of this problem that you have directed yourself to, the social conflict that ensues from lack of employment, and your statistics on child beating and drug abuse and the increases that are caused in unemployed families.

I agree wholeheartedly. I would just ask you if you would agree with me that being unable to find a job is perhaps the most debilitating experience that a human being who wants to be productive can experience. Would you agree with that?

Mr. WOODCOCK. I most certainly would. I can say that of my own personal experience.

When I lost my job in the Great Depression, I was in no danger of going hungry and never had to think of a welfare line, but the psychological, crushing notion was there that you are not needed, you are less than somebody. We cannot just accept the future of this Nation as one in which we are going to say to millions of people: "You have to accept the fact that for our good, you are less than somebody."

Mr. MEEDS. Much of the disenchantment of the system with the problems you were explaining about the way people view the future pessimistically comes from this very factor. Would you agree with that?

Mr. WOODCOCK. Very definitely, but may I add to that. There is a basic strength in this people. There is a basic strength in this Nation that its political leaders are ignoring.

If they would appeal to that basic strength, they would be surprised at the response they would get.

Mr. MEEDS. I would agree, too. I can think of no other program, nothing that the Government, the Federal government could do, which would be more important to this country in economic, sociological, psychological, and in all other terms, than to get people back to work, can you?

Mr. WOODCOCK. No.

Mr. MEEDS. Thank you.

Mr. DANIELS. Do any of my colleagues desire to ask any further questions of Mr. Woodcock?

Mr. Woodcock, on behalf of the committee, I again wish to express my thanks to you for your appearance and your testimony.

Mr. WOODCOCK. Thank you very much.

Mr. DANIELS. Our next witness is Professor Robert Eisner of the Department of Economics of Northwestern University.

Welcome, Mr. Eisner. I notice that you have a lengthy statement. It is not quite fifteen pages long. The Chair would like to suggest to you that you submit your statement for the record. It will be printed in full, and then summarize your views in order to afford the members of this committee an opportunity to ask you questions.

Is that agreeable?

Mr. Eisner. Yes. Let me try to half-read, half-summarize, and sort of shorten it.

Mr. Daniels. Proceed in any fashion that you want. I will see that your statement is incorporated in the record in full. I shall now ask unanimous consent that your statement will be incorporated in

Is there any objection?

Hearing none, it will be so ordered.

[The statement referred to follows:]

Prepared Statement by Robert Eisner, Northwestern University

I heartily support the basic objective and principle of the Full Employment and Balanced Growth Act of 1976.

It is past time that we establish "the right of all adult Americans able, willing, and seeking work to opportunities for useful paid employment at fair rates of compensation.'

The losses from unemployment are far more than the suffering of those without jobs. With unemployment of labor goes a squandering of our nation's physical and human resources.

Unemployment directly affects vast numbers of individuals. In the last year, which has seen unemployment close to nine percent and now at 7.6 percent, still larger than the average of our post-war recession lows, more than 20 million Americans have been unemployed. The associated loss of output has been in the neighborhood of $200 billion, more in a single year than all of our expenditures in the long, tragic years of war in Southeast Asia. This loss of output goes far beyond the loss of incomes to the unemployed and their families. It means lower real incomes for masses of fully employed, of self employed and of those living on the income of their investments. Significant unemployment, such as we have recently experienced, is a national catastrophe.

The Full Employment and Balanced Growth Act of 1976 is fundamentally sound in finally declaring it national policy to achieve and maintain full employment. It is wise in mandating the President and Congress to implement that policy. It is bold and correct in setting a goal of three percent "adult" unemployment, corresponding to minimal frictional and search unemployment, as the full employment target. It is right in setting forth a variety of implements for achieving the full employment goal: general fiscal and monetary policy, programs directed at regional and structural unemployment, youth unemployment and particular cyclical difficulties, and coordination with state and local government and private sectors in our economic activity.

A key issue to be faced is the attainability of unemployment as low as three percent without inflation. While unemployment that low has been reported in many other economies, the United States has experienced that low a total unemployment rate only during World War II, and then we had a full set of government regulations, including wage and price controls.

It may further be argued that even the four percent unemployment widely recognized as a full employment target in the sixties and actually attained by 1965, is no longer reasonable in view of the changing composition of the labor force. It is maintained that increasing proportions of teenagers, of women and of minorities difficult to assimilate into urban employment all contribute to an inevitably higher minimum rate of unemployment.

I do not accept this argument. First, unemployment has always been concentrated among relatively marginal numbers of the labor force. At one time it was white, European immigrants and "Okies" or displaced farmers. Now it may be Puerto Ricans or Blacks or youths or women. In no case can we condone failure of the economic system to provide employment to those who seek it. In large part it is inadequate aggregate demand that causes unemployment, certainly a major component of the difference between three percent and nine percent or 7.6 percent. Improved monetary and fiscal policies will go a long way to bridging this major gap between goals and recent and current reality.

It is likely, however, that part of the path to three percent unemployment must involve programs targeted specifically at the employment of new entrants into the labor force, of women, of minorities, of youth and of those suffering from lack of training, experience or mobility. Adequate efforts aimed at those in relatively high unemployment categories will facilitate the major role of fiscal and monetary policy in providing sufficient aggregate demand for full employment without inflation.

Policy-makers must, however, not allow fear of inflation to continue its near perennial paralysis of efforts to achieve full employment. It is true that the buoyant market demand which is associated with high employment may also tend to encourage higher prices. Such inflationary demand has not, however, been a common occurrence in the United States economy in peace time. Indeed our recent bout of high inflation, reaching 12 percent per annum, stemmed not from excess demand but from short supply, particularly skyrocketing prices of petroleum and associated sources of energy and higher prices of agricultural products and raw materials generally, essentially determined on world markets. Efforts to combat such supply-induced inflation by choking off demand through tight fiscal policy or tight monetary policy can only result in the massive unemployment and recession which we have experienced.

Further while well-guided efforts to combat inflation are certainly in order, it must be recognized clearly that our ultimate goal must be measured in real terms, the maximum provision of goods and services. If real production is less, the economy as a whole is clearly worse off, whatever the general movement in prices. It is fashionable to object to inflation under any circumstances, but the real loss from a general upward movement in incomes and prices would be minimal.

What has made the recent inflation so painful is simply that incomes in money terms moved up considerably less than prices. Clearly if prices rise by 12 percent while incomes rise on the average by five percent, there is essentially a seven percent average drop in real earnings. But this is merely the other side of the coin of a seven percent drop in real output associated with recession. The American people would have been no better off if prices had risen only seven percent and incomes not at all or if prices had risen not at all and money incomes had fallen seven percent. Conversely if prices had risen at 12 percent and money incomes had risen at 16 percent, a condition which would have existed with normal full employment growth, there would have been little substance, at least in the aggregate, to public complaints about inflation.

In enacting and implementing H.R. 50 it must be recognized that inflation is to be fought essentially by providing for better competition, increased efficiency and maximum output. To combat inflation by reducing output and employment is to create and magnify the very evil that the struggle against inflation was thought to meet.

The costs of unemployment and the associated loss in output are not merely a current loss. With high unemployment have come massive declines in capital formation. This has included sharp drops in residential construction as well as in business acquisition of plant and equipment. In addition, millions of youths and other unemployed have failed to acquire or to maintain critical experience, training, and the skills which are the essential human capital which provide for the bulk of future production. These losses in investment in physical and human capital will cast a heavy burden on the years ahead reducing the future availability of goods and services for a generation and more.

While I warmly endorse the basic purpose, principles and goal of the Full Employment and Balanced Growth Act of 1976, I should like to point to a number of instances in which internal contradictions or bars to effective implementation should be eliminated or where improvement and strengthening of the bill may be undertaken.

First, it is important to stress the primacy full employment. Whatever objectives may exist in the minds of various backers of this bill, many of which objectives I share, the bill must become a carriage for a broad assortment of relatively unrelated programs. We would not want our efforts toward full employment to undermine other basic principles of national policy such as equal opportunity, non-discrimination as to race and sex, and general objectives of fair labor standards. But a program for full employment cannot become the vehicle for defense of a mass of special interests. It is dedicated as such neither to private employment nor to public employment, but to employment in general. It should be neither an instrument for detailed planning and control of the economy nor an obstacle to what planning or social intervention appears desirable. It should be noted specifically that "planning" for full employment need not necessarily imply interfering with free individual choice expressed in free competitive markets. Providing for full employment need not imply socialist planning. All full supporters of free enterprise should see in full employment the one healthy environment in which it can flourish.

By way of specific objection, I must call attention, in the critical Section 106 on fiscal and monetary policies, to the call to "balance the Federal budget or create a surplus under conditions of full production, employment and purchasing power" (page 16). This may appear to be conventional political wisdom and indeed a widely expressed economic goal. In fact, we have no basis for assuming that it is consistent with the objective of full employment. Efforts to implement this may make the attainment of full employment difficult if not impossible.

The essential issue again is the provision of adequate aggregate demand. If with a balanced budget aggregate effective demand proves less than the volume of goods and services all those willing and able to work can produce, then taxes should be less so that demand is higher. Perhaps paradoxically, the conditions under which a balanced federal budget may be consistent with full employment are likely to be those where federal expenditures are very high. Where the stimulus from federal expenditures is relatively small, taxes may have to be exceptionally low to offer sufficient compensating private demand.

A balanced federal budget at full employment may indeed be in essential contradiction with the objective of balanced growth. For by balanced growth we ordinarily would entertain the notion that capital and output will grow in proportion. If capital and output are to grow at, say, a four percent rate without inflation, we might expect that "balance" would imply a four percent growth in all assets, real and monetary, including the relatively secure assets in the form of U.S. Treasury obligation which form such an essential anchor and source of liquidity in many portfolios.

The total federal debt is now approaching $600 billion. Even if inflation were reduced to zero, which is clearly beyond the most optimistic of current forecasts, an increase in the federal debt of some $24 billion would then be necessary to provide balance for a real growth of four percent in capital and output. If we are to attain and maintain full employment, a balanced budget would not entail balanced growth. For assets in the form of Treasury obligations would become a small and smaller portion of bank portfolios, pension funds, corporate holdings and the savings of individuals. If we are to go further and create a surplus under conditions of full employment we would only aggravate the distortion in our financial structures.

The call to a balanced federal budget may be necessary political rhetoric. It is questionable economics and a potentially serious roadblock to the attainment of full employment. The federal budget should be used as a means to the attainment of full employment. Balancing it or creating a surplus should only be undertaken when it is consistent with the full employment goal. We have no basis for assuming a priority that it is. To enact balanced budgets or surpluses as a goal of a full employment plan may well contradict the essential purpose of that plan.

Section 107 on anti-inflation policies raises some questions with regard both to what is omitted and what is included. A critical fact upon which economists of many persuasions, liberal and conservative, have come to agree, is that government itself is a major contributor to inflation by its intervention to prevent the free operation of competitive processes which would keep down the general level of prices. In a free, dynamic economy we should expect technological processes and supply and demand to change incessantly and frequently rapidly. This should mean that at any point of time some prices will be rising where demand increases or relative costs become greater and other prices should be declining where demand decreases or relative costs become lower. As long as restrictions on competition prevent the normal decline in prices in those products and industries where declines are indicated, the average of prices has nowhere to go but up. It is understandable that those with private economic power, whether in the ranks of imperfectly competitive businesses or groups able to control labor supply, would strive to maintain or even raise prices or wages in the face of declining demand or declining relative productivity. What is difficult to condone is government actions which reinforce special anti-competitive interests at the cost of the general good and particularly of efforts to maintain a stable and general level of prices.

What I have in mind is the whole panoply of actions by government regulatory agencies which act to restrict competition and maintain prices, of price supports, of tariffs and of quotas. Perhaps among the more disastrous recent innovations are to be found in recent legislation on international trade under which the President has now acted to restrict steel imports. This legislation authorizes action to eliminate foreign competition when it is "injurious" to domestic producers. It is an open invitation to destroy the critical discipline of world markets which may prove the only meaningful constraints on prices in highly concentrated industries where huge American companies essentially dominate the domestic market. If the Congress is seriously to face up to the needs and possibilities for effective competition it cannot continue policies which inhibit that competition either at home or with the rest of the world.

In addition to my objection to the omissions which make section 107 far less than an effective program for price stability, I must object to paragraph (4), providing "for an export licensing mechanism for food and other critical materials." Restricting exports of commodities in short supply offers the appearance of restraining domestic price increases. In fact, while it may lower the prices of export commodities, it must inevitably raise prices of all that we import and of much domestic production which may be in competition with imports. Further, by restricting exports we force a misallocation of resources from those goods in which we have a comparative advantage. We should be producing all that we can of these goods and selling all that we can at the best prices obtainable in the world, using the proceeds to buy what is relatively cheap abroad. It makes no sense, for example, to restrict the export of food, which we can apparently produce and sell more cheaply than foreigners, and then restrict the import of steel which foreigners are ready to furnish us below domestic prices.

I should add that there may be danger in the provision for establishment of stockpile reserves. Such stockpiles can of course serve a useful function of stabilizing prices if they are sold in periods of high demand and short supply. It may be important though to avoid the danger that the establishment of stockpile reserves proves a convenient device for price supports for producers who are not content to take their chances with free competition. A program for full employment should not involve the government in building up larger and larger reserves of allegedly critical materials where such reserves in reality are critical only to the income of their producers.

Title II on countercyclical, structural and youth employment policies abounds in the suggestion of positive programs. The stabilization of state and local budgets is particularly important. One of the ironies and paradoxes of our recent recession is the extent to which state and local governments, dependent upon high cyclical sources of income, have been forced to reduce expenditures and public employment just when the interest of the economy calls for more employment and more expenditures. The federal government uniquely has the power to prevent states and local governments from being forced to these procyclical actions. It should plan to exercise that power.

The proposals for reducing youth unemployment are important. There must be major efforts to ease the transition from school to jobs. The Congress might find it wise to subsidize coordinated programs of training in school and on the job so that teenagers could begin actual employment while still in school and move naturally and without interruption into full time jobs as they complete their education.

In addition to new measures to promote youth employment, the Congress might seriously consider removing an impediment to youth employment as well as, to a lesser degree, to employment generally. There have been major efforts to give tax credits and tax subsidies for business purchase of machinery. Yet business hiring of labor, far from being encouraged with a tax credit, is generally discouraged by the payroll tax, which now amounts to 11.7 percent of the bulk of wages and salaries. In the case of young, new employees this is a particular and unjust burden on employer and employee alike.

Given the risk in hiring inexperienced and untrained workers, this 11.7 percent tax (12.3 percent if President Ford's request were granted by Congress) must in some instances be the marginal discouragement which makes profitable employment impossible. From the standpoint of youthful employees the tax is a cost which promises little if any benefit so many years in the future that the present value of the expected return is minimal.

I have elsewhere proposed a specific employment tax credit for the young, which might be extended to all new entrants into the labor force. Alternatively, the Congress might simply exempt all those under, say, 21 years of age from any payroll tax obligations. If employers neither have to pay the tax nor even bother keeping records of social security obligations they might have significant incentive to take a chance on hiring youthful job-seekers.

I might add in this connection, although it is generally relevant, that the technology is certainly available for major improvements in our employment and job placement services. It should be possible to computerize information as to job openings and potential employees throughout the nation. A major amount of unemployment is no doubt associated with the delays experienced by employers in finding workers for the openings that they have, and for workers in locating those openings. The technology that can send men to the moon can go much further than it has in sending men to jobs.

Section 206, providing for "reservoirs of federally operated public employment projects and private non-profit employment projects" is a key ultimate weapon in eliminating unemployment. While every effort should be made to bring about maximum employment in the private sector as well as in traditional public activities, there is no reason to shy away from public employment and private non-profit employment projects as an ultimate guarantor of full employment. I should add, however, two proposals of significant modification of this section.

First, it may be appropriate in connection with the provision of public employment to rethink the nature of our unemployment insurance program. To anbandon the unemployed should be unthinkable. Yet there is a serious danger that any well-intentioned program of unemployment insurance will encourage idleness on the part of at least some members of the labor force. What is more, unemployment insurance offers individual income maintenance but does nothing to eliminate the real loss of output associated with lack of work. I would urge therefore that serious consideration be given to a program of sharply reduced duration of unemployment benefits with the companion provision that, upon the expiration of the benefit period, unemployed workers would be given jobs on the public employment and private non-profit employment projects. These jobs should pay more than unemployment benefits and yet would cost the economy far less because the goods and services they provide will go at least part of the way, hopefully all of the way, to justifying their cost.

I must, however, express a major objection to the priority and eligibility criteria for full employment under section 206. In section 102, the bill states, "The Congress declares and establishes the right of all adult Americans able, willing and seeking work to opportunities for useful paid employment. . . ." That right should not be restricted, as it is in section 206, by considerations as to "the number of employed persons in a household, number of people economically dependent . . . [or] household income . . ."

For one thing, consideration of the number of employed persons in a household is almost certainly to discriminate against the employment of women. It means that a woman may well be unable to obtain a job under section 206 if she has a husband who is working. This fact may have the further perverse consequence, as has had much of the application of programs for Aid to Families with Dependent Children, of driving male wage-earners out of the household. As it stands, section 206 could turn into another monstrous destroyer of the family.

While perhaps seeming no more than a desirable exercise in egalitarian considerations, the criterion of household income is also incompatible with the guarantee to the right of a job and is an inappropriate interference with individual freedom. If the Congress wishes to promote more equal income distribution, it should seek to do this in section 207 and by appropriate tax policy. It should not seek to equalize income by restricting job guarantees to the poor. There is no reason why the right to a job should not be extended fully to youth, women and indeed adult males, whatever the total income of their households. If jobs are really to be considered a right and not a charity there is no excuse for a means test.

Finally, I must offer a caution against the provision for "the prevailing wage" which appears in section 2066 and again in section 402 on labor standards. In general, federal employment or federally sponsored employment should pay workers what the jobs are worth. As long as this is done one need not fear that alleged full employment will mask disguised underemployment. For federally sponsored projects in effect to pay people for no useful output may amount to little more than paying them to be idle and calling the paid idleness employment. To a lesser but a very real degree, paying employees on federally supported projects more than their particular jobs are worth means essentially paying them to be only partially employed, that is, partially unemployed.

Reservoirs of public and private non-profit employment projects should be directed so that the jobs are highly productive and employees should be paid the value of their product. As long as this is done taxpayers need not fear public employment. There need be no stigma to such public or private non-profit employment and none of the concern and antagonism directed toward "welfare chiselers." Unfortunately, as H.R. 50 is currently drafted, in arguing, for example, for "the prevailing rates of pay for persons employed in similar occupations" or the prevailing wage determined in accordance with the Davis-Bacon Act, section 402 prescribes rates of pay which may well be more than the value of the product produced.

Even taken literally, these provisions for "prevailing rates of pay" may encourage relatively non-productive work. They may deprive private employers, or other public employers not directly affected, of productive labor. And beyond the literal language, the opportunities for abuse in building into the economy non-productive public employment at wages which set a floor to private productive wage-scales is very serious indeed.

Federally supported employment may be expected as a matter of policy to pay at least the minimum wage or a rate equal to unemployment benefits, whichever is greater. Beyond that, it should be the aim of federally supported employment projects to see to it that these projects are as productive and useful as possible. Given the extent of our public needs, I see no reason why such projects cannot be planned to be as productive and more productive than much of the work in private industry. To the extent that they are, their pay should reflect that productivity. Indeed as public projects prove more productive than private employment, none of us should begrudge their continuance and their expansion. But under the guise of "Fair Labor Standards" or the provision of "prevailing rates of pay" there should be no distortion of labor markets or guarantee of high-paying unproductive public employment.

H.R. 50, providing for enactment of the Full Employment and Balanced Growth Act of 1976 is the embodiment of a dream and a principle which when established and implemented will lead our economy and our nation a giant step forward. There is every reason for the Congress to move promptly and expeditiously to the realization and embodiment of that dream.

STATEMENT OF ROBERT EISNER, PROFESSOR, DEPARTMENT OF ECONOMICS, NORTHWESTERN UNIVERSITY

Mr. EISNER. Thank you very much, Mr. Chairman. I consider it to be a great honor to be here this morning, and I believe that the Full Employment and Balanced Growth Act of 1976 that you have proposed is a landmark piece of legislation which will go down in history, when enacted, as having made some tremendous progress in our economic system and in providing for the well-being of the American people.

I heartily support the basic objectives and principles of the bill. I think it is past time that we establish the right of all adult Americans able, willing, and seeking work to opportunities for useful paid employment at fair rates of compensation.

The losses from unemployment are, I think, more than what many people recognize. We talk of 7.6 percent unemployment. The chairman has just indicated the latest report is 7.5 percent.

It is said that the administration may be ready to sacrifice 10 percent of the people on behalf of 90. In the first place, we should realize that even with 7.6 percent unemployment, we have had some 20 million people who have suffered unemployment during the last year.

Of course, the 7.6 percent of the people unemployed are not unemployed all year. People are out of work for several months, sometimes for a year. The unemployment directly touches a vast portion of the population.

Perhaps more important than that, and this relates, I think, very closely to the issues of inflation and unemployment that we have touched upon, is that with unemployment there is a great loss of output.

We have a variety of estimates. I would suggest in the last year we have lost some $200 billion of output that might otherwise have been produced if we had been operating at full employment. $200 billion of output is more than we have spent in all of the years of tragic war in Southeast Asia.

If we lose $200 billion of output, it means that not only the unemployed suffer, but everybody—I will not say everybody, but vast proportions of the population suffer, because if we produce less, no matter what happens to prices, there is simply less output to go around. It means the people whose stock goes down on the stock market find that they have less with which to buy. Independent businessmen whose profit goes down find they are producing less and have less to buy.

So the loss of unemployment, I think, has to be stressed not only as a loss to the unemployed, but to the entire economy.

Policymakers, however, seem always to be paralyzed with fear of inflation and the notion that inflation is what is created by full employment and by adequate aggregate demand. As a matter of fact, as has been pointed out, the inflationary demand that people think of is a very rare occurrence, possibly a nonexistent occurrence in peacetime in the United States.

By that, I mean inflationary demand, aggregate demand greater than what we produce. It certainly has not been the situation of our recent inflation. Rather, our recent inflation has related, as again has been pointed out, to the huge increases in petroleum prices, to prices of raw materials and agricultural products in world markets.

A major contribution to the recession that we have suffered has been the completely misconceived effort to combat that inflation by trying to reduce demand: allowing, for example, a $40 billion swing in what we call the full employment budget, a swing to surplus, which means a tremendous increase in the effective rate of taxation on the American people; along with that, a monetary policy which did not permit the amount of credit to grow as it should have in the face of increasing prices.

Now, I should also stress that there is a huge loss in unemployment in terms of what I think all the members of this committee and the American people are concerned with, investment or capital accumulation. I happen to have devoted the bulk of my professional career to the study of the business investment and beyond that, the study of investment and capital formation generally. The fact is that with unemployment and recession, you have a great drop in business expenditures for plant and equipment, but what is more, and I think frequently forgotten is the key to productivity, to growth, a drop in capital formation of all kinds. That includes the capital formation in the form of human capital of the skills, the job experience, of the American working people.

When you have unemployment, you put a burden on future generations for years and years to come because the people, the youth in particular that do not get jobs, who do not get job experience, never acquire the human capital that enables them to produce in the future. There, again, you get a burden of welfare, of crime, of dependency.

To allow people to stay unemployed is to create, I would argue, a tremendous crime against our needs for investment and our desire to provide for the future.

Now, I think that I would not be of adequate service to this committee if, despite my enthusiastic endorsement of the bill and the essential provisions, I did not call attention to what seems to me to be some internal contradictions against effective implementation.

One I will just mention in general. There is, throughout the wording of the bill, a number of statements about priorities, about goals, about fair labor standards. They involve objectives that I share with most of the members of the committee, I believe, and backers.

I think it is important to think of this bill as a full employment and balanced growth act, to make it clear to everybody that it is not a device, or instrument for any kind of do-good proposals or objectives, whether in favor of planning, or in favor of free enterprise.

This is a bill to provide for full employment in the best and most effective manner in which it can be done.

There is, I believe, as an economist, an unfortunate concession to popular mythology in section 106, "to balance the Federal budget or create a surplus under conditions of full production, employment and purchasing power"—page 16 of the subcommittee print.

This may seem to be conventional political wisdom and a widely expressed economic goal. In fact, we have no basis for assuming that it is consistent with the objective of full employment. The essential issue, again here, is the provision of adequate aggregate demand. If, with a balanced budget, aggregate effective demand proves less than the volume of goods and services, all of those willing and able to work can produce, then taxes should be less so that demand is higher. Paradoxically, if you have a very high level of Government expenditures, huge Government expenditures, you may want to have taxes equal to those expenditures so that you have a balanced budget.

It may prove true, if you avoid unnecessary expenditures, that even at full employment you will find when you tax the people an amount equal to expenditures you will be contradicting your efforts to achieve full employment.

I might very briefly point to something technical that perhaps many people have not thought of. We talk of balanced growth, a growing economy with balanced growth. That means to an economist, that everything grows in proportion, the unemployment, capital, savings. The nature of the portfolio remains balanced.

In this Nation, there are $600 billion of Federal debt, a large part of it held by the public, pension funds, held by banks, held by insurance companies. If you want to have balanced growth and yet want to have a balanced budget at full employment and want to have full employment, let alone a surplus and full employment, has it occurred to you that what you are providing for is a reduction in the Federal debt, or at least a Federal debt that does not grow?

If the economy grows at 4 percent per year without inflation with a debt currently standing at $600 billion, it is simple arithmetic to see that in order to have to balance the debt would have to grow by $24 billion a year with no inflation, I shudder how any of you can face the voters and tell them you really do not believe in a balanced budget, even at full employment.

I warn you, if you take this terribly seriously, you are creating a new shackle. You may find what we call in mathematical economics an over-determined system.

You say you want full employment, you say you also must have a balanced budget at full employment. I do not think any economist can guarantee to you that those two are compatible.

How you want to word that and, as I say, face up to the popular mythology, I cannot really say.

Mr. **Daniels.** Professor, what do you recommend under these circumstances?

Mr. **Eisner.** I think in terms of language you should ask for prudent policy. You should recognize with full employment you are likely to have much smaller deficits, perhaps no deficits. I do not think you should try to legislate a situation that you must have a balanced budget or a surplus at full employment, because it is not at all clear that that is really going to be compatible with full employment.

It is a touchy issue, I know. I remember President Kennedy addressing himself to myths in the famous speech in New Haven in 1962, that it is not easy without Presidential leadership to try to dispell this, to succeed. Popular misconceptions are great, and there will be demagogues among politicians who will insist we have to have a balanced budget, and this Committee is irresponsible by proposing full employment and saying it will not mean a balanced budget.

What you can say, very clearly, is that the huge deficit we have had, $70 billion currently in the last year, is clearly a deficit, overwhelmingly associated, not with excessive Federal spending, but unemployment. If you want to reduce the deficit, the surest way to reduce it is to aim towards full employment.

Mr. **Meeds**. Mr. Chairman, may I interrupt there?

Mr. **Daniels**. I recognize the gentleman from Washington.

Mr. **Meeds**. Thank you, Mr. Chairman.

Do you agree that we will come closer to a balanced budget, assuming relatively stable trendlines in Federal spending, with full employment than we would with the kind of unemployment we have now?

Mr. **Eisner**. Yes, I certainly would. I think that would be an appropriate focus.

Mr. **Quie**. Would the gentleman yield?

Mr. **Meeds**. Yes.

Mr. **Quie**. What if full employment was created by putting all of those 7 million people on public service employment?

Mr. **Eisner**. No matter how you achieve full employment, you would come to a more balanced budget. If all were on full service employment, I do not understand the bill providing that.

If that were so, these people would be earning, these people would be paying taxes, I have to really reject the question, if you forgive me. If you want to put 7 million people to work—you would not put 7 million people on public service employment, because if 2 million were given jobs, they would spend enough money to stimulate the production of goods that would lead to the hiring of another 5 million in private industry.

My numbers might not be precisely right. Indeed, if it were 7 million unemployed, you would directly provide for 7 million additional public service jobs, then you would be creating inflation.

Mr. **Quie**. I do not understand your mathematics. Those 7 million are getting some kind of unemployment insurance or welfare. If they were on public employment, you would substitute the money, so their earnings would be greater than they are receiving now. But they are spending the earnings that they are receiving now through unemployment insurance and public welfare; it is only the difference between those two, that they would spend in addition. Their taxes are not going to be very great. Surely, they are not going to pay as much in taxes back as you are putting in.

Mr. **Eisner**. Yes, but if you have 7 million unemployed to begin with and you put 7 million people to work with more income than they are apparently receiving from unemployment benefits, then you have the 7 million people working.

In addition, you have additional purchasing power which would go to try to buy more goods and services. There are no additional people left, by your arithmetic, if you put all of the 7 million people to work, therefore, I would suggest that would be inflationary.

Suppose the 7 million on unemployment benefits are receiving $20 billion. Suppose the 7 million on public service jobs are receiving $35 billion. Then you have a $15 billion increase in spending.

Again, I really think that that is not a real issue. I cannot think that anybody would contemplate putting 7 million people on public service jobs.

Mr. **Quie**. How do you get the other people employed if public service employment puts the most employable ones to work? What about the less employable ones?

Mr. **Eisner.** I do refer to this in my statement. As I understand the bill, I think it wisely provides a wide variety of instruments to obtain full employment. It begins fundamentally, I think, as it should, in asking the President to recommend to the Congress and have the Congress consider and approve appropriate fiscal and monetary policy which will provide the right level of aggregate demand.

That, I think, in a free enterprise system is the first line of defense. The great tragedy of current policy without this bill is that the administration is never instructed to make plans to provide for a tax policy, a monetary policy, that has the aim of full employment. In fact, the Council of Economic Advisers quite openly predicts and projects long years of unemployment. That is in part, apparently, based on the programs advised to the administration.

The first line of defense is appropriate monetary and fiscal policy. Beyond that, the bill wisely recognizes that there are many areas of unemployment not readily tackled by overall fiscal and monetary policy. It provides for youth employment programs, provides for depressed areas, provides particular measures regarding cyclical concerns. It provides, for example, to try to urge support for State and local governments, so you do not have the situation as in my State of New York City or elsewhere where, in the face of a recession, the cities and States and the school districts aggravate the unemployment by having to lay off workers because their tax revenues are down.

Mr. **Meeds.** Mr. Eisner, if I may interrupt, it would be incorrect to assume this legislation which encourages other programs like the Young Adult Conservation Corps, which is before this very committee, to assume that this legislation will just see that the most employable are hired. Indeed, the Young Adult Conservation Corps directs itself to young people between the ages of 18 and 25. This group of people are among some of the most unemployable, indeed, twice the national average rate of unemployment, therefore, some of the most unemployable.

It would stimulate that kind of activity.

Mr. **Quie.** If you would yield, it would be the most employable youth who get the jobs first.

Mr. **Meeds.** You are dealing with a whole group of people which are among the most unemployable, and in dealing with the unemployment problem, you have to look at groups of people, black, young black girls in that group would be just as subject to unemployment in the Youth Conservation Corps as 21-year-old white girls who are much more employable.

I think the gentleman from Minnesota is mistaking the purport intended in the bill.

Mr. **Quie.** We have had that problem in other areas, for instance, with the handicapped. The only way we could address it was to require employers to hire the most severely handicapped. I watch all of these programs, and it is the individuals that are easy to work with who always get the jobs.

Mr. **Meeds.** The gentleman from Minnesota has always supported that kind of legislation.

Mr. Quie. I supported legislation providing jobs going to the most severely handicapped.

Mr. Daniels. I think it would be appropriate at this point to ask our witness if he has any ideas as to how we may improve youth employment opportunity and what policy you feel that the Congress ought to adopt in this connection?

Mr. Eisner. Yes. I think that the youth employment issue is a major one. Clearly a very considerable portion of our unemployment is concentrated among youth.It also then tends to spill over into later years. Youths who are unemployed in their teens, they have much less regular work histories afterwards, and I recognize that this bill is more a broad plan than a set of specific legislative proposals.

I do find that the principal suggestion in the bill is very attractive. I can add—I do not know if I am adding very much to what is not already in the bill, but I would consider it very important to try to develop programs that ease the transition from school to job. This may involve subsidies, ultimately, from the Government, but programs that would see to it that youngsters in school begin to get job experience, job training, and then employers have every encouragement to hire them, perhaps part-time while they are in school and then pick them up full time when they leave.

It is an undue burden to leave to young people what might be called the anarchy of free markets. I am a great believer in free markets, but one place where you do have difficulties is to take people who are relatively untrained, who have not had jobs, and expect them to find jobs, expect employers to hire them.

Indeed, one of the great strengths of our system is one of its weaknesses that we have to learn to meet, is simply that we are not a slave economy. Since we are not a slave economy, it does not pay an employer except, perhaps, a baseball club in the days of the reserve clause, to take an employee, take a chance on him, invest in training him, figuring if he works out he will prove valuable, we will keep him.

The fact is, no employer can have the guarantee that he will keep such an employee. Therefore, it does not pay him to invest, to take the chance. It does pay society, because we know by the statistics, by probabilities, that most people, given the chance to work, will work successfully.

Therefore, it behooves the Congress, I believe, to implement programs that will make it in the interest of employers to hire the young and inexperienced, give them training, not to leave it to a rather chaotic, hit-or-miss system whereby a vocational school or schools happens to give training, has no idea whether the training will be appropriate for jobs that are available, and leave people in a situation where they do not even know if it pays to try to prepare for a job, because they have no idea whether they will get the job when they finish their preparation.

Mr. Sarasin. Would you yield at that point?

In your statement, you talk about the possibility of eliminating the social security tax, for ages under 21. Would you also consider it a possibility of a wage scale that is less than a minimum wage?

Mr. EISNER. That issue, of course, frequently comes up. I can appreciate the argument for it.

I think eliminating the social security tax for those under 21 is a much preferable procedure. Along with that, I would suggest, if necessary, subsidies.

I do not think it would be wise to eliminate the minimum wage law, to make that kind of a dent in it, even for the young, in that it does seem to me in a society as productive as ours it should be possible to have any worker worth as much employed as the modest minimum wage requirements that we have.

I recognize realistically in many situations that may not appear so to an employer. Therefore, I think it is the duty of the Government to see to it that workers are either trained or given information as to the location of jobs, or even helped to move to areas where jobs are available so that they are able to produce up to the minimum wage.

I will not say I am a believer that all men really have equal ability and equal productive power. I am enough of an egalitarian to believe that it is not true that there are very many people in our society that are so dumb or so weak that they cannot produce, given the great experience and know-how and capital-intensiveness of our economy, enough to meet the minimum wage.

If it is the case in regard to the young and inexperienced workers, then I think that it would be relatively cheap and inexpensive, if necessary, if the social security tax exemption does not go far enough to have programs of subsidy whereby you can subsidize an employer, if necessary, to hire a young worker that has no experience and therefore is too big a risk for him to want to bother with it.

I guess, by the way, that that unemployment is not going to be that susceptible to minor differences in wage. If I could put myself in the shoes of a small employer wondering about hiring some kid who has no job experience, who may turn out to be absent, tardy unreliable, even dishonest, I do not think the difference between $2.25 and $2 and $1.75 is the crucial difference.

He says, I do not want to take a chance on this kid. It does not pay me. I would rather have a good, experienced worker.

I think to change the minimum wage law, to change that is to break down a goal for a quixotic purpose.

Mr. SARASIN. I do not understand the difference as far as the overall effect is concerned. You say you will pay an individual more if he is over 21 than if he is under 21, which is, I think, what I suggested with the youth differential.

Perhaps I do not understand the application of the principle. It would seem to me if the employer is not paying him that 5.85 percent at this point, obviously he is hiring that individual for lower wages.

What encouragement would there then be to keep him when he becomes more expensive? What encouragement would there be to keep the individual who happens to be there now, over 21 and more expensive?

Mr. EISNER. The encouragement would be that the older worker with more experience would have an extra value equal to more than that differential. I would doubt if many employers would find it expedient, having hired a person at 17 or 18 and taking advantage of what differential there is in terms of the employment tax, I doubt that he would want to fire the worker at 21 because of a difference of 5.85 percent that he would have to pay.

The real problem is we know employers are hesitant to hire people without experience. Once a worker has experience and is a reliable worker, he is not likely to want to lay him off for that small differential.

Mr. QUIE. Could I ask you, what if we had no minimum wage at all for those under 21, the minimum wage began at 21?

Mr. EISNER. I think there would be two things that would happen. For one thing, I believe there is likely to be an effective minimum wage if applied by young people themselves. It may seem sad—perhaps it is realistic, perhaps it is right. It may be that many kids are going to say, damn, I am not going to work for $1 an hour. I would just as soon hustle or stand on the street corner or sell dope or run numbers or one thing or another.

There is a limit to how low people are going to go in offering their services. It is not at all clear that eliminating the minimum wage is going to increase employment markedly for young people. What you may find, it may paradoxically make your statistics look better, because unemployed, you know, are those who are looking for work and cannot find a job. It may be that people will not bother to look for work if the only jobs available are so low-paying it does not seem worth it to get dressed up and pay the carfare to get there.

I agree with you that there is a wage below which they will not work. I do not see the necessity now of a minimum wage for such individuals, because you do not have a whole sweatshop problem any more; let them work that out in their community, however it fits. Some places it is $2.30 an hour; nobody would ever work for less than that.

In other communities, they do. They are willing, judging from those who are not covered by employment standards; young people do work for less than that.

Mr. EISNER. I do not know how much we want to get hung up on the minimum wage. With all due respect, it is one of those issues that people have used, that they bring in. I think it can be something of a red herring, an interference with the main objective.

There are many arguments on both sides of the minimum wage, many of which I am sure many people feel seriously. There is ignorance, there is exploitation in our labor market. There are pockets of relative poverty.

To eliminate the minimum wage is to encourage their persistence, encourage a situation where employers can get away with paying workers a very low wage because the worker, even though he is worth more than that, does not know where to find an employer, where to find someone who will pay him more.

I would rather see even unemployment created to a certain extent by this minimum wage and then have the Congress address itself to the problem of matching workers with openings and training and see that they can earn it. If you eliminate the minimum wage, you will find with the minimum wage, by comparison, undoubtedly many workers were being paid a higher wage than they would be paid otherwise, and were not unemployed as a consequence.

It is not true clearly that raising a wage above what might prove to be a free market wage, a minimum wage, is going to drive many people out of work. It may raise the wage for substantial numbers of employees.

Mr. QUIE. One other question.

Many people who are over 21 feel that they should receive more than the young, that their maturity should enable them to earn more. There are a number of people, as you indicate, who are employed earning slightly above the minimum.

Your suggestion of not paying the social security tax on employees under 21, that either they or the employer pay for that 11 percent-plus, that really means there is an incentive to the employer to hire the youth. He does not have to pay them as much as he does the ones over 21, because of the social security he pays on the older employees, and the youth earns more money than the one over 21. It would seem to me that would raise all kinds of dissatisfaction among people who are older, even more dissatisfaction than if you had a lower minimum wage and no minimum wage for the younger, because the ones who are older are either going to have to support themselves alone or support some other people and a family and a youth does not.

Mr. EISNER. It would be unfortunate if people viewed it that way. This is a clear situation where more people are working. As a consequence, there will be more for everybody.

I might add that the extending social security taxes to those under 21 is quite unequitable and unfair from another standpoint. I credit my good friend and colleague, Milton Friedman, with whom I do not always agree, in pointing this out as well. That is, that working people, unlike us college graduates who study long and finally get doctorates and do not get active in the labor force until later, your average workingman, many of Mr. Woodcock's constituents, start work early. They work from 17, 18, they are contributing to social security for many more years than the executives, the college educated. They do not get more benefits as a consequence.

The social security legislation does not work out that way. They are contributing now, at 18, to get something back when they are 65. The present value of what they get back in the future is very low.

What is more, the working people, as we know, that start work early tend to live less long. We can make every argument of equity that it would be fair not to start the social security payments that early.

That, of course, is another kind of argument. I was really addressing myself essentially to the question of trying to encourage youth employment.

If I may, there is one other point I would like to pick up on.

Mr. DANIELS. I appreciate it. Time is moving on.

Mr. EISNER. The other major point I would like to raise with you —and I hate to be critical of sections of the bill, because I think the objective is so overwhelmingly important—you can read my whole statement and perhaps get more detail on some of this, but I think section 206 and its provision of priority and eligibility criteria is most unfortunate.

In section 102, the bill states: "The Congress declares, and it establishes the right, of all adult Americans able, willing and seeking work the opportunity for useful, paid employment;" yet in section 206, in providing for reservoirs of federally operated public employment projects and nonprofit employment projects, it is indicated that among the criteria for employment on these projects should be the number of other workers in the household and household incomes.

I know this was a well-intended provision. Let us stop to think what it means.

It means if you were a woman and you have a husband who is working, your right to a job is, in effect, abridged. You are told you are down low on the priority list, if you have a husband working, sorry, apparently we cannot give you a job.

If you happen to come from a family that has substantial income, you are told, I do not care about you as an individual, your family has enough income, either because your father is a doctor or a lawyer or because you have two or three brothers or sisters working. Therefore, you do not any longer have this right to a job.

I might also point out a very tragic experience we have had in our welfare programs with the Aid to Families with Dependent Children where we know very well if you insist that the aid go only to families where there is no wage earner in the family, what happens is a man who might be earning deserts the family, either officially or really, so that there can be welfare benefits available.

I would suggest that this provision has the serious danger of operating in the same way. That is, if you have a person who wants a job, if you have a family in which a person needs a job and there is somebody else working, that other person, perhaps the man, had better desert if that woman expects to be able to get a job, at least insofar as section 206 goes.

I would really strongly urge that the Committee think about amending that provision to make sure that you do not establish priorities on such employment that relate either to other employment in the household or to other income in the household.

I would think a simple basis for priority should be the length of unemployment.

That leads me finally to, I hope, one constructive suggestion that you might think about, and that is perhaps we think seriously about limiting—I hope this is of appeal to many conservatives on the Committee or elsewhere—think seriously of restricting the duration of unemployment benefits and substituting for unemployment benefits that may last 65 weeks or 52 weeks or what have you, just the kinds of jobs that are provided for in this bill.

You might well say, all right, a person is entitled to unemployment benefits for 3 months. If, at the end of 3 months, he does not have a job, then he can get a job on one of the public employment, or private, nonprofit employment projects that are envisaged in this bill.

That would have the advantage of discouraging people from abusing the unemployment insurance provisions. We certainly do not want to tell people they have to begin starving after 3 months or 65 weeks. We do want to offer them jobs.

It would really be, in the long run, much less costly to the country. It is better to pay a person 50 percent more on a job where he is producing more than pay him unemployment benefits where he produces nothing.

That, I think, would be an appropriate direction in which to move, and perhaps a good substitute for trying to restrict employment to those who do not have anybody else working in the household, who do not have much other household income.

Mr. DANIELS. If my memory serves me correctly, when unemployment insurance was made available to unemployed workers, the benefits ran for a period of 26 weeks. Then, as unemployment increased, the time period for the payment of benefits was also increased from 26 to 39 weeks, then it ran to 52 weeks. Then, when we had an unprecedented level of unemployment, in excess of 9 percent, the Congress, in its wisdom, increased it an additional 13 weeks.

It is presently paying benefits for a total period of 65 weeks to one who has been unemployed for a long period of time.

Let us assume that the levels of unemployment nationally are reduced to a much lesser figure than we have today, which I understand is 7.5 percent, to what level do you think would be a realistic and practical level to pay out benefits with a high level of unemployment nationally?

Mr. EISNER. Understand that I would not cut off benefits under any situation. What I am saying, we should substitute jobs for the benefits.

I would like to encourage people to have a job. I would think that it is a curious kind of unconditional surrender on the part of the public and the Congress to say after 26 weeks, we cannot find a job for people, we will give them benefits for 52 weeks. After 52 weeks, the economy is in such bad shape, we still cannot find jobs for people, we will give them benefits for 65 weeks.

What we should do is say if you have unemployment benefits for a brief period because you may be temporarily laid off, you may need time to search for another job. If you cannot find one, then I think the Humphrey-Hawkins bill, H.R. 50, provides just the right solution. It should be integrated, then, with the unemployment system.

You can say if the person does not have a job after 3 months and he applies to the office set up under this bill, he is told, you no longer have benefits, you have a job. It should be the responsibility of the administration, those executing this bill, when enacted, to see to it that there are productive jobs available for people who have been unemployed, let us say, for more than 3 months.

Mr. HAWKINS. May I ask a question?

Mr. DANIELS. Surely.

Mr. HAWKINS. Are you not in effect saying that if we have a real full employment program, as we envision in H.R. 50, that the need for unemployment compensation would decrease tremendously, so what you are talking about is a very small residual group, instead of

$20 billion being now expended on unemployment compensation is a copout, a failure to have the right economic policies.

We probably would reduce that to a small amount of that—let us hazard a guess: somewhere in the neighborhood of $1 billion or $2 billion other than the $20 billion.

What you are now suggesting is that that residual group might be handled in this way. Those who might not be unemployed again for the length of time—they are now unemployed, but may be again for several months, if the program operates as we envision the program to operate, the point that you are making is that it may be somewhat covered by the normal operation of the bill, but as a residual group, you are suggesting that work be provided for those who will be unemployed beyond, let us say, 3 months or some other period of time.

Mr. EISNER. Yes, that is perfectly correct, Mr. Hawkins. I think you have put it well. Certainly most of the unemployment, most of the benefits would no longer be necessary with this bill, but I would still recommend that the residual unemployment be taken care of this way and in part, I think even in terms of political appeal—although I should not venture into the political realm—as you do know, there is great concern in this country about welfare cheaters, those people getting benefits they are not entitled to.

I think if a full employment bill came forth saying, we are not giving handouts to people; we are trying to do away with that. The American people want to work. If somehow they cannot find a job after some period of time, 3 months, we are even going to see to it as a last resort we will have a job for them.

Mr. QUIE. Mr. Chairman, I do not understand. We are talking about 3 months of unemployment?

Mr. EISNER. I put out the figure of 3 months without any great consideration.

Mr. QUIE. Whatever period you have, what happens? I do not understand what happens.

Mr. EISNER. What would happen, I would say, technically under our unemployment insurance system, a person is supposedly looking for work. As long as he is looking for work and cannot find it, he is entitled to unemployment benefits. If, at the end of 3 months, he is unable to find work—if we pick a 3-month period—then I would say the government should indicate, all right, you have not been able to find a job in private employment; we now have this reservoir of public jobs and private, nonprofit jobs and it might even involve private employment jobs the government has arranged somehow through subsidy.

You take this job. This is a substitute for your unemployment benefits, presumably at more pay than unemployment benefits. I am not suggesting it may be of the pay of private industry. The person would still have an incentive to go elsewhere.

I do think that the public employment jobs should pay whatever the job is worth, and I think it should be the policy of the Congress to see that the public service jobs which are provided are useful jobs. God knows, there is a great deal of useful and important work to be done in the public sphere and nonprofit sphere. There is no reason to think of these as leaf-raking jobs.

I think it should be the purpose of the Congress to provide useful ones.

Mr. **Quie.** Your answer to Mr. Daniels was you would not cut off unemployment insurance at a 3-months period. It sounds as though you are saying someone from the Federal Government would tell the person, you are no longer going to have it, you are going to go to a job.

Mr. **Eisner.** That is right. I would not cut off financial support, but the support would be in the form of a job rather than unemployment insurance.

Mr. **Quie.** That person would take that job whether he liked it or not?

Mr. **Eisner.** It could be whether he likes it or not, yes. This is something one would have to consider. That might be appropriate.

Obviously, you would understand that the jobs would be reasonably appropriate jobs for these people. I would believe that most people would prefer it. I do not know why a person would not want a job rather than to continue to remain idle.

Mr. **Daniels.** Mr. Sarasin, do you have any questions?

Mr. **Sarasin.** I am wondering with your comments that you are assuming that wages are not applicable in the situation. Would you agree? I am trying to go back to something I read in the newspaper or heard on the radio that perhaps it is attributed to Dr. Burns. He said that public service employment should not necessarily compete as far as wages are concerned with the private sector.

Mr. **Eisner.** I was before the Joint Economic Committee with Dr. Burns a couple of weeks ago. I would not agree with that statement of his. I do not think that you should set up public service jobs as something undesirable that has a stigma, that are jobs for poor people. I do think that jobs should be set up to be as productive as possible and one should try to see to it that the workers on these jobs are paid for what the work is worth.

If you can find public service jobs that are, in effect, worth more, more than jobs in public industry, so be it. Then you may well find workers being attracted away from private industry to work in these jobs, and nobody should regret it, because apparently these jobs are better paying.

However, if they are not that productive, then they should not pay that much. I do have trouble with the provision of applying the Davis-Bacon Act or other notions of prevailing wages, in that prevailing wages in an occupation, in an area, are not actually what that job is worth. If you get into the box of setting wages which are more than jobs are worth, then you do run into the danger of distorting the allocation of resources in the economy and pulling people away into less-productive jobs.

Clearly, of course, this is not the purpose of the act.

Mr. **Sarasin.** Do you think any adjustments should be made in wages paid in the private sector in an industry where the demand of the product has decreased, assuming if the wages were dropped, it would stimulate a demand for that particular product?

Mr. **Eisner.** I do believe in free markets. I think if you had full employment and you had a fall in demand for a product, you would not likely find workers accepting lower wages. They would simply move to the other occupations where the wages remain high. That is as it should be.

I would like to remind everybody that a free enterprise, private profit economy that we are all happy to support does not guarantee a profit for everybody. If the demand falls because people no longer want to buy something, that is tough, but resources should move out of that company or out of that industry.

In my prepared statement, I deplore what has happened now, for example, on trade legislation, the recent act of the President to choke off imports of steel.

If foreigners find they can produce steel and sell it here more cheaply than we can produce it, if we really mean what we say about fighting inflation, we simply do not want a situation where we say the American steel producers are going to be protected because they are going to be injured by the import of foreign steel at lower prices.

That goes for competition abroad, it goes for competition within the country. If the demand for large automobiles falls off, with all due respect to Mr. Woodcock, and the American automobile workers, it may be the American automobile companies do not learn to produce automobiles that people want, people may start to buy more television sets or doing more traveling by plane.

Congress cannot be in a position of seeing to it that the status quo is always protected, and every company that has sales knows its sales are guaranteed. I also do not think that the remedy is going to fall on workers taking lower wages. That may be a short-run solution, if there is a short-run problem.

In the long run, clearly if there is competition in the labor market, workers are going to move out of companies and industries that are not able to pay the wages that they can earn elsewhere.

Mr. SARASIN. We seem to live in a situation of ratchet movement. We can only move in one direction. When demand falls off, the overhead never seems to go down, or has any ability to go down.

Mr. EISNER. I would suggest that a great deal of the fault there—I hope I am not disrespectful—must lie in the Congress and in the Government. Over and over again, there are actions of regulatory agencies, of price-support plans, or tariffs, of quotas that simply prevent prices from falling in instances where costs have gone down elsewhere where prices should fall.

As a consequence, you have a ratchet effect. With respect to any change of relative demand or relative cost, some prices go up, but nothing is allowed to go down, because people come in and beseech you and say, we are injured by the foreign competition, or we need this price support.

That way, you do have a built-in tendency toward inflation.

Mr. SARASIN. Thank you very much.

Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Hawkins, you did not have an opportunity to ask Professor Eisner any questions.

Mr. HAWKINS. I will just say I commend the witness. I think Dr. Eisner has made a great contribution to this subject. I have had an opportunity to read the statement; he has made several suggestions by way, in my opinion, of strengthening the bill.

I think that they are very constructive suggestions and I accept them in that light, and I certainly wish to say that I believe his testimony before this committee has been very much relevant to the intent of the responses of the bill and his critical points of disagreement, I think, are very minor, in my opinion, and certainly be accomodated.

With that, I will not ask any questions. I would like, however, the consent to put a letter from the National Commission for Manpower Policy in the record at the conclusion of the hearing this morning.

Mr. DANIELS. I ask unanimous consent.

Hearing no objection, so ordered.

[The letter follows:]

NATIONAL COMMISSION FOR MANPOWER POLICY,
Washington, D.C., March 25, 1976.

Congressman AUGUSTUS F. HAWKINS,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN HAWKINS: I appreciate your courtesy to permit me to comment on HR-50 by letter rather than by appearing formally at the hearings which your Sub-Committee is holding. The National Commission for Manpower Policy has explored many issues contained in HR-50 during the past several months and my comments are informed by these discussions. However, I want to stress that the Commission will not complete its recommendations on an employment strategy for the nation until it finalizes its Second Annual Report to the President and the Congress which is due in the fall of 1976. Hence my comments must be viewed as indicative of the present thinking of the Commission, not as reflections of its considered conclusions.

1. The Commission shares with HR-50 the conviction that opportunities for jobs for all Americans able and willing to work should be placed at the very top of the nation's agenda for an activist manpower policy. In its first annual report, the Commission outlined manpower policy "as a set of commitments and programs aimed at facilitating the employability of all persons able and willing to work; the strengthening of the manpower infrastructure to enhance the matching of people and jobs; and providing various types of specialized support in the form of temporary jobs, income support and other types of manpower assistance to individuals and groups when the economy is unable to provide adequate employment opportunities." To effectuate such a comprehensive approach will require many of the elements in HR-50.

2. The Commision is appalled as is HR-50 by the cumulative human, social, and economic wastes resulting from the serious short-fall in jobs particularly severe since late 1974 but characteristic of most of the post-Word War II period.

The Commission noted in its first annual report "that the threat of renewed inflationary pressures does not justify the continuation of policies that carry excessive human and economic costs, which this year will exceed $200 billion in lost output alone" and that "In considering the cost of putting individuals back to work, it should be noted that there are also substantial costs to doing nothing. It has been estimated that for every percentage point increase in the unemployment rate above 4 percent, the federal deficit increases by almost $16 billion—$14 billion because of reduced tax receipts and $2 billion because of increased transfer payments. The process also works in reverse."

3. The Commission is convinced as is HR-50 that the danger of renewed kindling of inflationary pressures cannot justify a macro-policy that will leave us with such excessively high unemployment rates as have been calculated by both OMB and CBO under their present estimates.

The Commission in its first annual report further noted:

"That the present inflationary presures did not arise from a shortage of of workers and their amelioration should not be sought and cannot be achieved by continuing high levels of unemployment."

"The Commission fully understands the national desire to exercise budgetary restraint and place a ceiling on deficits. It notes, however, that the present federal budget deficits are due in part to the recent recession with its high level of unemployment which has resulted in large increases in transfer payments and lower tax revenues. The cost of providing more employment opportunities through expansionary macro-economic policies would be lessened over the long run by the extent to which federal transfer payments are reduced and federal tax receipts are increased."

"In times of excessive inflationary presures, when a cooling of the economy may be considered desirable—although recent experience raises serious questions about the unemployment-inflation trade off—selective demand management, that is, public job creation, income support, and other manpower programs can provide some cushion in mitigating some of the adverse effects of a deflationary policy."

4. The Commission shares with HR-50 the conviction that the accomplishment of a full employment goal requires the lose articulation of economic and manpower policies. The Commission noted in its annual report that "An important aspect of the development of manpower policy is its interrelationship with macro-economic policy. Although macro-economic policies have the primary role in determining the level of aggregate employment, manpower policy can supplement the effective use of fiscal, monetary and budgetary policy in maximizing employment, particularly by addressing structural or geographic problems.

The Commission, however, has not had the opportunity to explore the specific legislative and administrative structures proposed in HR-50, including the establishment of a Full Employment Office in the Department of Labor.

5. Some caution is indicated in establishing a single rate of unemployment as an absolute target. However, the need to set some measurable objectives is appreciated. However, a single rate cannot alone suffice since the distribution of unemployment and its consequences is not spread evenly across the population. Therefore, caution is suggested in developing an operational standard for "full employment"—not however in the pursuit of that goal.

6. The Commission agrees with the emphasis in HR-50 that stresses that a full-employment program must provide "productive non-wasteful jobs.'

7. The Commission also agrees with HR-50 that there is "widespread duplication and contradiction among federal departments and agencies." I am forwarding at this time the Commission's special report, Manpower Program Coordination. In both this special report and its First Annual Report, the Commission made a number of recommendations for improving the interrelationships among manpower programs. In its First Annual Report the Commission concluded: "that substantial gains can be made from improved coordination of manpower and related programs, but this can be accomplished only if constructive actions are taken at every level—federal, state and local." It is the hope of the Commission that Congress will through future legislation facilitate and mandate coordination of existing and future manpower legislation.

8. The Commission agrees with HR-50 in the need for improved integration of income-maintenance programs and full employment policies.

As its First Annual Report states: "The Commission supports early action to convert transfer payments into wages for workers who have been unemployed for long periods of time." Accordingly, the Commission is exploring how a proportion of the estimated $40 billion of emergency income transfer payments in fiscal year 1976 can be converted to creating employment opportunities for the unemployed in the public sector, as well as exploring new approaches for maintaining and expanding job opportunities for the unemployed and potentially unemployed in the private sector.

With regard to the Unemployment Insurance System, the Commission has recommended:

Enactment of legislation to improve the coverage, benefit levels, and financing of the system.

A study to determine ways UI can be transformed in part into a manpower support program with emphasis on expanding training opportunities and mobility assistance.

A study of the various types of work-based earning programs that might be established for the long term unemployed in lieu of further extension of UI or forcing those who have exhausted their benefits onto welfare roles. (The Commission offered as one possibility community development projects which offer employment and training opportunities to the long term unemployed in inner cities and rural areas.)

Elimination of duplication and inefficiencies in work test procedures used in UI, Food Stamps, and Work Incentive programs.

9. The Commission is sympathetic with the range of countercyclical proposals of HR-50 without as yet having had an opportunity to assess them in detail.

10. While the Comission has staff work under way with respect to regional and structural employment policies it is unable at this time to comment on these provisions in HR-50 because it has not yet had a detailed discussion on these policy matters.

11. The Commission shares the concern expressed in HR-50 with the need for strengthened youth employment policies. It is currently issuing a volume of expert papers on this subject which will shortly be available.

12. The Commission is sympathetic to the proposal centered in HR-50 relating to "Reservoirs of Employment Projects" although it has not as yet had the opportunity to explore their potential.

13. The Commission is in accord with the proposal of HR-50 for a Congressional determination as to priority of claimants for public service employment jobs and other types of manpower services. In particular, family income should be a primary consideration. In its Second Interim Report to the Congress, the Commission recommended: "that Congress establish a maximum family (or household) income ceiling for persons to become eligible for PSE jobs." The Commision advanced this recommendation on the basis of the inequity of having secondary wage earners of some families competing with unemployed family heads of other families for a limited number of publicly supported jobs.

Two additional views of the Commission which pertain to the objectives of HR-50 may be of interest.

In the Commission's First Annual Report, it was noted that "Addressing the continued problems will require significant changes in many of the present concepts and policies, a considerable redirection of many of our programs, and some restructuring of our economic and manpower institutions."

The report went on to state that "In assessing the state of our nation's manpower policy in the fall of 1975, it is this growing acceptance of chronically high unemployment which the Commission judges to be its most critical and the most disquieting finding. If the nation—and its leadership—continues to accept as inevitable a high level of unemployment and consequently lessens its search for early and effective remedies, the unemployed and the nation will have become the victims of a self-fulfilling prophecy."

As indicated in the beginning of this communication, the Commission is presently in mid-stream in formulating its detailed proposals with respect to a national manpower policy, including employment strategy. However, I hope that my specific comments convey to you the frequent parallelism between the Commission's preliminary approach to employment problems and the proposals contained in HR-50. You can be assured that as the Commission moves ahead to deepen its analysis and formulates its recommendations it will give close attention to HR-50.

I am also enclosing a copy of my remarks prepared for the Joint Economic Committee's National Conference on Full Employment since they supplement some of the comments set out above.

Sincerely,

ELI GINZBERG,
Chairman.

Mr. DANIELS. I would like to give my thanks to you for your interesting testimony this morning. Your views as an economist, indeed, are valued.

I read your statement from beginning to end, and, of course, I am not an economist. I do not fully comprehend all of the things that you have stated and do recommend, but I do intend, if I have any leisure time, to carefully review it and have a better understanding of your recommendations.

As Mr. Hawkins has just told you, you have made some suggestions here, inasmuch as he is the author of the bill, I will be guided very much by what Mr. Hawkins has to say.

I think that you should feel particularly honored today. We have had a better attendance at this subcommittee by the members of this subcommittee today than we have had for a long time in the past. I am happy to see that we have the ranking minority member of the full Education and Labor Committee, the gentleman from Minnesota, Mr. Quie.

Mr. QUIE. I just want to pursue the prevailing wage question which I find very interesting, because it has been my feeling that the money can go a lot further if we did not pay the minimum wage. You could hire people for a lesser wage. The Federal money could go further to get more people employed.

Your argument that the people who are on public service employment, in spending that money gives other people employment and more money to spend to give other people employment.

That argument is important.

I notice in the legislation—check me if I am not right on this—what we tended to do is either say you have to pay the minimum wage or pay the prevailing wage or public service employment, we put a cap on at $10,000 at what could be paid, which limits them to certain kinds of employment.

Now, how would you have us write in the legislation that they should pay whatever the worker is worth? That is a little hard for me to understand, how you do that.

Mr. EISNER. That is a tough question, hard for me to know how to word. I have thought about it, and I recognize the difficulty. I might suggest, it is not an issue that does not have to be faced by every employed, including private employers.

I do not know how a General Motors or the Washington Post or any private company decides exactly what an employee is worth. You do not hire a reporter and say he is going to bring in so much in the way of advertising revenue and therefore I can afford to pay him $15,000 to $18,000.

There are management experts, there are personnel people who try to decide how much a job is worth, and pay that kind of a salary, or wage, and I would hope, in public service employment that a similar determination would be made and made honestly, as free of political influence as possible. But I do reject Arthur Burns' suggestion that any public service job as a matter of principle be made unattractive. I do not think public employment should be viewed that way.

But the problem I see in stipulating prevailing wages that these may not be the wages that are appropriate for the jobs that are being performed. Again, it may be a matter of semantics. Maybe you can get away with prevailing wages if it is understood correctly.

People have told me that the Davis-Bacon Act, for example, has been widely abused.

Government has been paying for work far more than they should be paying because there may be some small union that does not influence most of the working conditions in an area of industry that has a particular wage and that becomes the floor of what has to be paid.

I can see in the bill, as drafted, that kind of danger. I guess I am politically realistic enough to know that undoubtedly much of organized labor, which I think appropriately should support this, may be very much concerned if there is anything in the bill that would suggest it would be used to break down fair labor standards.

I would hope that you could find a way to word things that would indicate that the public service job should be worthwhile, productive, should not be unattractive, as Arthur Burns says, but also should not be boondoggles to try to pay people considerably more than they are worth and put them in a situation where they never want to leave public employment, even though the jobs are not worth that much.

Mr. QUIE. What about the fact that employees in similar work are union employees? Would there not be a tendency to pay the union wage?

Mr. EISNER. If in a similar work employees are paid that union wage, they are apparently worth that much to the employer. If in a similar public service work they are doing the same work, I have no objection to them getting the union wage. I am not trying to undercut that.

On the other hand, suppose you have a school that has provided teachers, say the salary of teachers is so much. Do you pay that much?

Mr. QUIE. Thank you.

Mr. DANIELS. Thank you, Professor.

This concludes today's hearings. I would like to announce that the next meeting of this subcommittee will take place on Tuesday, April 6 in room 2261 in the Rayburn Building, at which time we propose to have as witnesses the assistant secretary of labor, William Kolberg, and representatives of the IAUW and AFL-CIO.

[Whereupon, at 12:20 p.m. the subcommittee recessed to reconvene for further hearing on Tuesday, April 6, 1976.]

FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

TUESDAY, APRIL 6, 1976

House of Representatives,
Subcommittee on Manpower, Compensation,
and Health and Safety,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room 2261, Rayburn House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Members present: Representatives Daniels, Hawkins, Meeds, Gaydos, Beard and Sarasin.

Staff present: Daniel Krivit, counsel; Saralee Schwartz, research assistant; Nathaniel Semple, minority counsel.

Mr. Daniels. The Subcommittee on Manpower, Compensation, and Health and Safety will come to order.

This morning we continue with hearings on H.R. 50, The Full Employment and Balanced Growth Act of 1976. Our first witness is Hon. William H. Kolberg, Assistant Secretary of Labor for Employment and Training, accompanied by Mr. William B. Hewitt, Administrator, Policy, Evaluation and Research.

Welcome, Mr. Secretary.

Mr. Kolberg. Mr. Chairman, thank you very much. It's always a pleasure to appear before you and the subcommittee. I apologize for the length of my statement this morning. But in view of the importance of this bill, I would like very much to read it, if I may, rather than just insert it for the record.

Mr. Daniels. The length of it is understandable because of the importance of the bill.

Mr. Kolberg. If I may, I'd like to proceed.

STATEMENT OF WILLIAM H. KOLBERG, ASSISTANT SECRETARY OF LABOR FOR EMPLOYMENT AND TRAINING; ACCOMPANIED BY WILLIAM B. HEWITT, ADMINISTRATOR, POLICY, EVALUATION AND RESEARCH

Mr. Kolberg. I am pleased to appear before this subcommittee to present the Department of Labor's views on H.R. 50, the Full Employment and Balanced Growth Act of 1976. I am particularly pleased to appear at a time when our leading economic indicators are pointing toward sustained economic growth. The sharpest recession of the postwar period hit bottom last spring, and a substantial recovery is now underway. Commissioner of Labor Statistics Shiskin reported on Friday last that unemployment for the month of March was 7.5 percent, down substantially from the May 1975 recession peak of 8.9 percent.

Severe as this recession has been, it did not turn into a depression, and substantial credit for this must be given to existing programs to cushion unemployment. In December 1974 and June 1975 the President signed into law major expansions in the duration and coverage of unemployment insurance. During fiscal year 1975 a total of 1.9 million Americans drew benefits as a result of this new legislation. Under regular unemployment insurance programs, 11.1 million Americans received benefit payments.

A second major source of assistance to the unemployed, and one very familiar to the members of this subcommittee, is the Federal program of training and employment assistance. The Comprehensive Employment and Training Act provides a broad range of employment and training programs administered through State and local prime sponsors, including a permanent program of public service employment authorized in title II. In December 1974 a new title VI was added to CETA providing a temporary public service jobs program.

This employment and training system has been developed since 1962. Its development has been bipartisan in nature. The executive branch and the Congress have worked cooperatively through the past few years, and together have provided both authority and funds for an impressive range of programs to ease unemployment and put people back to work.

The first line of defense against the unemployment we have experienced has been unemployment insurance. By providing purchasing power to the unemployed workers, unemployment insurance serves as a built-in stabilizer in the economy. The program helps to maintain the economic well-being of both the unemployed workers and the business community.

The second line of defense is represented by programs geared to assist the unemployed by locating new employment opportunities or providing temporary employment opportunities. These programs are, of course, the employment service program consisting of a nationwide network of 2,300 local public employment offices, and the public service employment programs authorized under CETA.

Mr. Chairman, I think we often overlook the magnitude of expenditures for unemployed persons. In fiscal year 1976 we are spending approximately $25 billion through the programs administration by the Employment and Training Administration on manpower and unemployment insurance to assist approximately 20 million unemployed and underemployed persons. This is up from $7.8 billion in fiscal year 1974. These figures, of course, do not include funds for other programs which may assist the unemployed, such as Aid to families with Dependent Children and Food Stamps.

In his 1976 economic report to the Congress the President stated that his key goal is to create an environment in which sustainable, noninflationary growth in the private sector can be attained. Proposed programs to achieve this goal include:

Large and permanent tax reductions that will leave more money where it can do the most good; in the hands of the American people.

Tax incentives for the construction of new plants and equipment in areas of high unemployment.

Tax incentives to encourage more low- and middle-income Americans to invest in common stock.

More than $21 billion in outlays for important public works such as energy facilities, wastewater treatment plants, roads, and veterans' hospitals, representing a 17-percent increase over the previous fiscal year.

Tax incentives for investment in residential mortgages by financial institutions to stimulate capital for home building.

The President and his economic advisors have estimated that these proposed economic programs, along with the natural recovery of the economy, will foster an increase in employment of 2 to 2.5 million jobs in fiscal year 1976 and more than 2 million in 1977. In addition, the administration has put before the Congress a bill providing for comprehensive reform of the Nation's unemployment insurance system. This bill, H.R. 8614, would provide unemployment insurance coverage on a permanent basis for more than half of the approximately 12 million workers now only covered temporarily under the Special Unemployment Assistance Extension Act of 1975. The administration's reform bill would also restore solvency to the Nation's unemployment insurance system by raising both the tax rate and the tax base upon which employers are taxed for unemployment compensation costs. A bill, H.R. 10210, embodies parts of the administration's reform proposal, has been reported out of the Ways and Means Committee and is scheduled to come to the floor of the House after May 15.

Mr. Chairman, it is within this context then that we should consider the bill before the subcommittee today, H.R. 50. The major intent of the bill is to achieve, within 4 years of enactment, the goal of 3 percent unemployment for all adult Americans able, willing, and seeking work. Full employment in the bill is defined as a rate of 3 percent or less unemployment for those age 16 or over.

Under title I of the bill, the President would transmit to the Congress an Economic Report not later than January 20 each year, in which he would recommend numerical goals for employment, production, and purchasing power, as well as policies to reach these goals.

Through the Council of Economic Advisors, the President also would be required to establish a process of long-range economic planning to achieve the goal of reducing unemployment to 3 percent within 4 years. The full employment and balanced growth plan to be submitted to the Congress would propose long-term national goals for production and purchasing power, as well as the 3 percent unemployment rate.

Title I would require that monetary and fiscal policies be used in a manner to achieve full employment and balanced growth, that the

President determine the extent to which fiscal policy can be relied upon to achieve full employment and other economic goals, and that the economic report contain a comprehensive set of anti-inflation policies to support fiscal and monetary policy. The Federal Reserve Board would be required to submit an independent report, setting forth the extent to which the Federal Reserve would use monetary policy to support the President's recommendations. The Federal Reserve would have to justify any policy decisions that did not support these recommendations.

In addition, title I provides for periodic reviews of Government regulations and the gradual introduction of zero-base budgeting. Also, a 12-person Advisory Committee on Full Employment and Balanced Growth would be created to assist the Council of Economic Advisors.

Title II sets forth policies intended to achieve full employment.

Title III establishes a timetable for congressional review of the President's recommendations under title I. The Joint Economic Committee would continue to review the President's Economic Report, and recommend any changes to the House and Senate Budget Committees. Those recommendations would have to be included in the first concurrent budget resolution, which must be approved by the Congress by May 15 each year. The bill also would establish a Division of Full Employment and Balanced Growth in the Congressional Budget Office to support the Joint Economic Committee.

As I have indicated, title I of H.R. 50 concerns goals, economic planning, and general economic policies. The Department of Labor generally defers to the Council of Economic Advisors and the Federal Reserve Board on these matters.

However, we do question whether the addition of the complex system and structure of this bill to existing organizations and institutions, including the President's Economic Policy Board, the Council of Economic Advisors, the Congressional Budget Office and committees, and the Joint Economic Committee, will result in timely and adequate responses to emerging problems. We cannot help wondering whether the complicated reporting and programing requirements would truly facilitate or delay administrative and congressional response to problems in this most complex and key area.

As concerns the goal of the 3 percent unemployment rate, let me say that this administration, as well as, I believe, every administration since the Employment Act was enacted in 1946, has endorsed the goal of full employment—if not the definition of that goal that is contained in H.R. 50.

But while we favor the concept of full or maximum employment, we have serious reservations about the unemployment goal expressed in H.R. 50. We oppose enactment into law of this bill, which, we believe, would create expectations that cannot be met.

The unemployment rate as defined in this bill has fallen to 3 percent only once since 1948. That was during the latter part of the Korean war period, which includes the second quarter of 1952 through the third quarter of 1953. It is highly questionable whether the 3 percent goal is realizable with price stability. Previous testimony on H.R. 50 asserted that to achieve 3 percent unemployment by job creation in the private sector within 4 years would require an annual economic growth in GNP of 7½ percent. Our experience clearly shows that it would be extremely difficult, if not impossible, to sustain a growth rate of this magnitude over this requisite period.

Furthermore, we question whether the use of a single measure and goal for unemployment, sufficiently takes into account the complicated nature of our economy and of the unemployment problem. The Chairman of the Council of Economic Advisor pointed out at the recent Conference on Full Employment held by the Joint Economic Committee that there are many different types of unemployment requiring different remedies. We would add that the bill fails to recognize that unemployment is not static since there is considerable turnover in the ranks of the unemployed. The duration of unemployment is not taken into account by this single rate. In sum, we do not think the 3 percent unemployment definition of full employment is realistic.

Another way in which the bill creates expectations that cannot be fulfilled is that it appears to guarantee all adult Americans the right to useful paid employment at fair rates of compensation. Whether this promise can be fulfilled through the mechanisms established in the bill is, in our view, highly questionable.

The most obvious concern is the impact on our economy of vast public expenditures for programs designed to reduce the unemployment rate to 3 percent. The high cost stems both from the large number of public jobs—primarily public service employment—that would have to be created, and from the wage rates that would have to be paid for those jobs. Sponsors of the bill have estimated that it would require an outlay of about $25 billion a year, less savings in unemployment insurance and welfare, and the offset of higher taxes. I believe this outlay figure is vastly understated. By way of illustration, suppose that all the currently unemployed were to be employed in public service jobs down to the 3 percent goal. If this could be accomplished at the current cost for PSE positions over $8,000, it would cost upward of $30 billion. But this neglects a number of problems.

The estimated cost is likely to be higher because to reduce the number of unemployed from 7 million to 3 million would require far more than 4 million public jobs. This is because of the guarantee of lucrative employment—in many cases much better than minimum wage—that would be attractive to many individuals who would not otherwise be in the labor force. Of course, this would significantly add to the number of jobs that would have to be created. In addition, the often noted substitution of federally funded public service employment for locally funded jobs would increasingly take place, thereby diminishing the net increase in new jobs.

Whatever the cost of the program, it would have to be financed either from additional taxes or from additional borrowing in the capital markets, or both. If taxes are increased in order to raise the additional revenue, consumer purchasing power is diminished which, of course, adversely affects private employment. If, on the other hand, these jobs are financed through public debt, then we have created a further stimulus to inflation which again diminishes purchasing power as well as pushes private capital requirements aside.

Therefore, regardless of the method of financing these jobs—whether through raising taxes or incurring more debt—the expenditure retards the healthy growth of employment in the other sectors.

Another major concern we have with the bill concerns the labor market effect of the wage provision in section 402, to which I have already alluded. Section 402 would require that persons employed in any of the programs designed to achieve full employment be paid the highest of either the minimum wage under FLSA, the State or local minimum wage, or the prevailing rates of pay for persons employed in similar public occupations. In the case of persons performing work to which the Davis-Bacon Act applies, the prevailing wage would be determined under that act.

Since the individuals receiving jobs would be paid at the highest of these rates, there would be no incentive for unemployed persons to look for equivalent jobs for which they were qualified in the private sector rather than in the public sector, which by law could not pay less than the private sector. Moreover, since the bill requires that individuals in public service jobs, for example, be paid at the highest rate, and there is no limit on the period of time an individual may remain on such a job and no mandated private sector work test for eligibility, there is no incentive for the person to take an equivalent job in the private sector should one come along. Over time, under this legislation, there would inevitably be a shift in many jobs and employees from the private to the public sector.

Another consequence of these measures is that there may result tremendous inflationary pressures due to the effect of a tightening labor market on wage rates—which the bill does nothing to address. It has been observed that long before the adult unemployment rate would fall as low as 3 percent, wages would start to creep upward at a rapid pace as employers bid against each other for manpower. The bill sheds little light on the ways in which these inflationary consequences would be attacked, but the clues which are there are more than enough to see that price stability as usually defined in the context of a free enterprise economy would be sacrificed. Agriculture would be subject to export controls. For the rest of the economy, there is only reference to "administrative and legislative actions."

A final concern we have is that emphasis in the bill is placed on creation of public sector job slots. However, there is a limit on the number of labor incentive jobs that can be created. For jobs to be productive—in the public sector as well as the private—there also must be inputs of capital and raw materials. But the bill fails to address this reality. In view of this, I am concerned that in conjunction with the shift from private to public jobs, the bill would result in a greater number of less productive jobs.

So far, Mr. Chairman, I have been addressing matters covered in title I of H.R. 50. Let me now turn to title II of the bill which provides specifically for compensatory and supplementary employment policies and programs if fiscal and monetary policy fail to bring unemployment rates down to the 3 percent goal. The bill does not detail the specifics of the policies, but rather, requires the President to submit proposals together with such legislation as is necessary, in five policy areas: (1) countercyclical employment; (2) countercyclical grants to State and local governments; (3) regional and structural employment; (4) youth employment; and (5) integration with income maintenance programs. The proposals would have to be submitted to the Congress within a period ranging from 90 to 180 days.

Title II essentially constitutes a simple listing of a wide range of alternative employment and training programs which might be considered to achieve the laudable but general goals of the legislation. For instance, section 202 on countercyclical employment lists nine areas from which a general program might be derived.

The administration is then directed to prepare within 90 to 180 days a definitive policy framework and program in this complex area. Mr. Chairman, no one is more aware than the members of this subcommittee of how unrealistic these time frames in title II are. You are aware, Mr. Chairman, that it took this subcommittee, the administration and others over 5 years to develop and to enact the Comprehensive Employment and Training Act (CETA) and although CETA is broad-ranging, it does not begin to have the scope envisioned by the authors of H.R. 50.

Mr. Chairman, I believe there is ample evidence that the Government can move quickly to propose the specific legislation needed to meet the Nation's emergency unemployment problems. When unemployment began rising in the fall of 1974, the administration put forth its proposal for an emergency jobs program as well as an extension and expansion of unemployment compensation programs.

The Congress, with the support of the administration, passed the Emergency Jobs and Unemployment Assistance Act and the Emergency Unemployment Compensation Act in December of 1974. Together this legislation provided a needed jobs program, new temporary coverage for workers not previously eligible for unemployment insurance coverage, and an extension of unemployment compensation benefits for those workers already covered by unemployment insurance. When unemployment continued at very high levels in 1975, the Congress enacted and the President signed further extensions and expansions in unemployment compensation in June of 1975.

Mr. **Daniels.** Mr. Secretary, may I interrupt you at this point. I've just received word that the full Committee on Education and Labor is conducting a meeting upstairs and the presence of the members of this committee has been requested by the chairman to constitute a quorum. So can we take a brief break at this particular time.

We'll recess for a few moments.

Mr. **Kolberg.** That will give my voice a rest, Mr. Chairman. I'll welcome that.

[Whereupon, a brief recess was taken.]

Mr. **Daniels.** The subcommittee will come to order.

Mr. Secretary and all the other witnesses who have been subpoenaed here today, I am extremely sorry for the undue delay in returning. I assure you, it was due to circumstances beyond my control.

I was assured that we would consider a bill this morning to which there was no objection: however, unanticipated objections and amendments were proposed, which necessitated some discussion. Of course, the discussions got a bit heated and also became extended, so I am profusely sorry for the delay. I know how important your time and the time of the other gentlemen is. And so I hope you will forgive the Chair.

You may proceed.

Mr. Kolberg. Mr. Chairman, I will begin at the second paragraph on page 15.

I have been encouraged by the high levels of cooperation which has evolved as we have worked together to provide maximum training and employment opportunities for the Nation's unemployed workers during the current recession. I believe that this degree of cooperation can continue and that it is important for the Nation that the Congress and the administration jointly set realistic and attainable goals toward which to work.

At this juncture, I would like to turn to some of the specific approaches presented in title II; my remarks will focus in depth on the two aspects with which we have had the most recent experience—countercyclical and youth employment policies.

As you are aware, most of the program approaches suggested in title II have been tried or at least proposed in the last 2 years. On the basis of our recent experience, we feel that the limitations of the use of these programs on a massive scale should be pointed out.

It is assumed that to reduce the national unemployment rate to the proposed target of 3 percent, the Federal Government would have to rely primarily on a massive public service employment program or public works program or some combination of the two, and perhaps subsidies to employers in the private sector. This administration believes that unemployment should be dealt with primarily through stimulation of the economy, creation of new private sector jobs, and income support through unemployment assistance payments to workers who are unemployed. There is a place for carefully designed countercyclical public service employment during periods of high unemployment but such a program must be limited in scope. Any system of federally subsidized public jobs requires built-in incentives to seek unsubsidized employment and therefore the continual availability and application of a work test. The bill is silent on this very important concept. As we have determined from previous experience in AFDC, welfare and UI programs, it is extremely difficult to implement an effective work test; however, a work test is fundamental to a program of short-term countercyclical public service opportunities and cannot be ignored.

While a public service employment program can create jobs in a short period of time, there are a number of disadvantages that argue strongly against the use of public service employment as an extensive countercyclical tool. Let me discuss two of the major problems which seem to be inherent in the basic PSE concept.

First, the impact of public service employment on net job creation can be greatly reduced over time by the "substitution" of federally funded public service employment for positions planned to be funded from local revenue. The more serious the revenue problems of local governments, the more such units tend to rely on Federal funds and cut back on local funding of jobs and services originally planned to be paid for out of local resources. This displacement effect becomes serious after localities have had to adjust, usually after the first year of the program. Studies have estimated the substitution effects of public service employment over time in a range of 60 to 90 percent, especially as the program continues. The CBO estimates this substitution effect to be as high as 75 percent. This displacement appears to occur despite the fact that the CETA was designed to minimize "substitution" of Federal for local funds.

Second, it is difficult to phase out large public service employment programs as unemployment falls. When large numbers of persons who have been employed under PSE providing local governmental services are confronted with the necessity to seek other jobs as conditions improve and the program nears its end, it becomes a very complicated matter to terminate the program. As a consequence, there is a danger that a large program of public service employment could become a permanent drain on Federal resources. In addition, there is the problem of precisely how to phase out the program when conditions improve without disrupting the labor market adjustments which must accompany improvement in the economy.

Although public works programs produce tangible long-term benefits there are difficulties in using massive public works programs as a countercyclical strategy. First, there are significant delays in implementing public works projects, even if the mechanism for funding them at the Federal level is in place. Consequently, the maximum impact of a public works program initiated at the beginning of a recovery may occur after the economy has recovered, contributing to an inflationary competition for scarce resources. The historical record on this score is not reassuring.

A further obstacle to using public works as a countercyclical employment device is that by its nature, the cost per job of a public works project is higher than for most other employment stimulation measures. To the extent that the employment impact is maximized by selecting labor intensive public works projects, the long-term capital forming benefits of a public works program are sacrificed.

Finally, jobs created by public works projects are difficult to target to the unemployed workers most in need of temporary jobs.

The comprehensive youth employment program required by section 205 of this bill is duplicative of programs already administered by the Department. Under title I of CETA, approximately 60 percent of the individuals served are youth—ample reflection of the existence of an authority and resources for this need. Also in accordance with title III of CETA, the Department is responsible for providing the variety of services to youth which section 205 of this bill requires, including education, on-the-job training and work experience.

The major resource for the summer youth program of 1976 will be funds appropriated under title III of CETA. A program to provide summer jobs for economically disadvantaged youth, aged 14 to 21, is part of the President's program. A supplemental budget request for funds to operate the program will be formally transmitted by the President to the Congress very soon.

We expect, Mr. Chairman, that the supplemental request will essentially keep last year's level for the summer youth program.

Section 206 of the bill would create, within the Department of Labor, a Full Employment Office with responsibilities for providing employment opportunities to individuals willing and seeking work but who, despite serious efforts, have been unable to find employment in the general economic environment or through any other provisions of the proposed act. Using reservoirs of federally operated public employment projects and private nonprofit employment projects, the Full Employment Office would provide last resort employment opportunities. The bill does not address the relationships of the duties and functions of the Full Employment Office to the other job guarantee mechanisms, economic stimulation measures, and fiscal and monetary initiatives that are to be established. The role of the Full Employment Office is not at all clear to us, nor is it clear how the role would differ from that currently mandated to existing agencies of the Department of Labor such as the U.S. Employment Service.

Further, Mr. Chairman, the Full Employment Office would provide these last resort job opportunities through reservoirs of federally operated public employment projects and private nonprofit employment projects approved by the Secretary of Labor. This concept represents a full abandonment of the principles of decentralization and decategorization of employment and training programs that have been established by this committee in the Comprehensive Employment and Training Act. I feel strongly that decentralization of decision making in the employment and training programs has proved to be a much more effective way of responding to the needs of the Nation than would the creation—or re-creation—of a highly centralized Federal bureaucracy charged with essentially the same mission. Duplication of effort by both Federal and local program operators can only result in wasteful overlap, conflict between programs and approaches to a common problem, and massive confusion on the part of the unemployed individuals who are intended to be the beneficiaries of the programs. Duplication and overlap of functions would seem to be something to be avoided and not mandated.

In conclusion, Mr. Chairman, I have several general points that I would like to make to the committee.

First, I would like to emphasize the commitment that we have, and I believe that every American shares toward the goal of full employment in our society. I firmly believe that we are making real progress toward achieving that goal and that we have much to be proud of in our free democratic society, in our free enterprise system, and in the ways that we have fashioned to solve our economic problems. The reasons we have not reached that goal is not because we are mean spirited. It is because the goal of full employment is perhaps the most difficult and intractable problem which faces any free democratic society dedicated to the free enterprise system. It is instructive, I believe, to look at the way our society has reacted in its concern for its unemployed citizens in past periods of serious depression or recession and compare our actions this time to those earlier times. I believe the record will show a decided and steady movement toward the laudable goals contained in H.R. 50.

Second, I know this committee is well aware of the performance of the economy since this recession bottomed out last spring, but let me briefly remind you of several facts. Total employment has risen to an all-time high of 86.7 million persons. It is interesting to note that adult women accounted for over half of this gain in employment. Over the past year labor force growth has totaled more than 1.8 million, again with adult women comprising more than 65.5 percent of this increase. During this period, the labor force participation rate for adult women increased by nearly a full percentage point—to 46.7 percent—while that for adult men declined by nearly a point. I will leave it up to other committee witnesses to fully brief the subcommittee on other current economic facts and trends. I recite the foregoing to illustrate one simple point—the private enterprise economy has created well over 2 million jobs and all indications of performance show a continuation of this record.

I also recite the foregoing facts to illustrate a major and important current trend—the Nation's labor force is expanding at a rapid rate with women and youth the dominant groups in the thrust, while men are continuing their decline in labor force participation. This trend has obvious significance to the bill under consideration. Larger proportions and numbers of women and teenagers have been entering the labor market. This growth in the labor force may mean that the goal of a fully employed society may take a little longer to reach.

Third, I want to indicate to the committee my full confidence in the importance of the employment and training and unemployment compensation programs currently being operated and the necessity for continuing to examine and improve those programs in every way. My preceding testimony should not be read as any doubt on my part as to the general need and effectiveness of the $25 billion plus we are now spending on such programs. Unfortunately, too much of the public discussion of H.R. 50 has seemed to become an all or nothing choice. I believe it is not at all inconsistent to oppose H.R. 50 as I have done in a number of ways in this testimony and at the time favor enthusiastically the continued support development and improvement of the Nation's employment and training system.

Finally, Mr. Chairman, the American public is already, in my opinion, disillusioned with the ability of Government to make good on its promises. I must say that H.R. 50 would be another instance where the Government, again, in my judgment, may be over-promising and under-performing. This could further continue to contribute to cynicism about the very ability of Government to carry out effectively any of its highly important duties.

This concludes my prepared remarks, Mr. Chairman. I would be pleased to respond to your questions and the questions of your colleagues.

Mr. **Daniels**. Mr. Secretary, the Chair wishes to thank you for your very comprehensive statement. I would first like to ask you this question, what level of unemployment do you deem would be fair and reasonable in order to achieve full employment?

Mr. **Kolberg**. I don't know that I would want to pick a number. The numbers our society has picked, as you know, Mr. Chairman, vary a lot. Back in the 1960's we used to talk about 4 percent unemployment; H.R. 50 mentions 3 percent. The former Commissioner of Labor Statistics spoke of 5 percent, with the current makeup of the labor force and the rate of expansion among women and teenagers. I think it would be unfortunate for us to pick a number—as I think I've indicated in my statement here, and say that number represents full employment and when we get there we've solved our problem.

I think if you want to pick some tentative goals or targets, one might want to do that for certain segments of the labor force and then see what happens when one gets closer to that goal. I don't think it's important or necessary for us to pick a number in order for us to get on with the job of getting our economy to perform.

Mr. **DANIELS.** Will you agree with the view of the Chair that the national level of unemployment that we have suffered during the past 2 years and the present level of national unemployment is unreasonably high?

Mr. **KOLBERG.** I certainly would agree, Mr. Chairman.

Mr. **DANIELS.** To what level does the administration propose to reduce this level of unemployment to provide more work for those who are unemployed and underemployed?

Mr. **KOLBERG.** I'm not sure I understand the question, Mr. Chairman.

Mr. **DANIELS.** What steps or efforts are being made by the administration to reduce this level of unemployment to a fair and reasonable level? Now you say it's hard to pick a particular figure but we must, in my judgment, determine what is a fair and reasonable level of unemployment. Now, you disagree with 3 percent and for many years, since the adoption of the Full Employment Act in 1946 4 percent was deemed and considered to be a fair level. Now, does the administration or the Department of Labor disagree with those figures?

Mr. **KOLBERG.** Mr. Chairman, let me first reiterate what I said on page 4 of my testimony. The first effort the administration is making is to increase the number of private sector jobs, and I detail in my statement a number of things that are being done—in terms of tax cuts, tax writeoffs, incentives of one kind or another, and some public works programs. In other words, there are a number of ways of stimulating the private economy so that private jobs are created. I have included in my statement the number of private jobs that are estimated to be created by those actions, 2.5 million in the past year and another 2 million in 1977.

The programs that we are talking about this morning that this committee is concerned about, the employment and training programs, are really nets to catch people that are unemployed after all the work of the private economy. Again, you and I could discuss at great length, Mr. Chairman, what the right number is at any point in time. The labor force is a very complicated thing and it continues to change all the time.

For instance, the reason I was pointing out this morning the changing labor force participation rate of women is because I think it may turn out to be the most important element in the changing labor force. If the labor force participation of women goes up 1 percent per year as it has in the past year, in 10 years we will have

55 to 60 percent of all women in the labor force. The number of men in the labor force will not continue to decrease the way it has. Is it the job of our Government to create good jobs for every woman who wants to leave the home and work? It's a question. I don't know whether it is or not. Is it the job of the Government to create a good job for my wife if she wants to work?

Second, there are 2.6 million out of the 7 million unemployed individuals that we are talking about have been unemployed for less than 5 weeks. Is that a serious enough problem so that a public job ought to be created for those individuals who have been unemployed for less than 5 weeks. I would raise a question about whether society has the responsibility to create a job for an individual who has been unemployed for that short a period of time.

What I'm doing, Mr. Chairman, is raising some questions, as you are, about the levels and the behavior of the labor force, which are very complicated. It seems to me by picking a level and saying that is the goal, one glosses over a whole series of very important problems and considerations concerning a labor force that is nearing 100 million people.

Mr. DANIELS. On page 3 of your statement you say, "In fiscal year 1976 we are spending approximately $25 billion through the programs administration by the Employment and Training Administration on manpower and unemployment compensation to assist—", can you give us a breakdown of that figure?

Mr. KOLBERG. Yes, about $18 billion of that would be unemployment insurance payments and about $6 billion would be in employment and manpower training programs. I think there are almost 6 million people being paid unemployment insurance this week.—or put it another way, about two-thirds to three-fourths of the unemployed through this recession have received unemployment insurance payments every week. In addition to that, the 6 billion, and we have a turnover in terms of numbers of people that are involved, funds 310,000 public service jobs under titles 2 and 6. And if my memory serves me right, and we will check the numbers for the record, about 1.3 million cycled through the title 1 programs.

Mr. DANIELS. I've heard it said time and time again that each time we have a reduction of 1 percent in unemployment or an increase of 1 percent in unemployment that it costs the Government about $17 billion. How does that figure ring true to you?

Mr. KOLBERG. I just don't know about that figure.

Mr. HEWITT. There are undoubtedly costs, both loss in revenue and in income support and I've heard estimates of $16 billion and $14 billion. I suppose it's in that range somewhere.

Mr. DANIELS. I heard it amounts to $14 billion in lost taxes and about $2 billion in unemployment insurance, Social Security Insurance benefits and food stamps. Does that sould plausible to you?

Mr. HEWITT. Plausible, yes.

Mr. DANIELS. Do you think the Labor Department should have a formal voice in the economic planning of this country as suggested in H.R. 50 to assure that the manpower aspects are properly considered?

Mr. Kolberg. Apart from the bill itself, Mr. Chairman, I think the Labor Department ought to have a voice in the planning and we do now. The Secretary of Labor sits on the President's Economic Policy Board along the with the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, the Secretary of Commerce and some others in the administration. So I believe we have that opportunity now to participate in economic planning in the highest levels of the Administration. I think that is very desirable. So certainly I would support that.

Mr. Daniels. Let me recognize Mr. Sarasin. He has a commitment and may not be able to get back later.

Mr. Sarasin. Thank you, Mr. Chairman.

Mr. Secretary, let me thank you very much for your very comprehensive statement and I would say to you I agree with it. I think this bill, while it sounds terrific, is a great deal of language and that's it. I made the statement the other day when this committee started their hearings that it is really passing the buck from the Congress to the administration and it is, I think, a disasterous piece of legislation. I would agree with you that we all share the same goal, that being to get as many people employed as possible, but I don't think the Government should find itself in the position of becoming an employer of last resort for the various reasons you've set forth in your statement.

I think determining fair rates of compensation are counterproductive, as you state. I think, perhaps, Mr. Chairman, I really have no questions of the Secretary but just fully support his comments here this morning and I thank him very much for his patience in the long delay.

I look forward to further hearings of the committee. Thank you, Mr. Chairman.

Mr. Daniels. I recognize the gentleman from California, Mr. Hawkins, the author of the bill.

Mr. Hawkins Thank you, Mr. Chairman.

First, Mr. Kolberg, may I ask you have you read the bill?

Mr. Kolberg. Yes, I have.

Mr. Hawkins You have?

Mr. Kolberg. Yes.

Mr. Hawkins. Are you also familiar with the National Commission for Manpower Policy?

Mr. Kolberg. Certainly, I'm on it.

Mr. Hawkins. Are you aware of their close support and encouragement towards the formulation of H.R. 50 and did you participate in those hearings?

Mr. Kolberg. If that is the way that letter is being taken, Mr. Chairman, I shall have to talk to the Chairman of the Commission and take a stronger stand on behalf of myself and the other administration members. I was afraid that was what would happen and Dr. Ginsberg will be told that is not the way the Commission ought to operate.

Mr. Hawkins. I suggest you do it. The record contains a copy of the letter and I just would remind you that your remarks this morning are in sharp contrast to the council on which you sit.

Mr. **Kolberg.** I don't believe I agree with your summary of what that letter says. My summary of what that says is about what I was saying, that in general, we share the goals set forth in H.R. 50. But, as I recall, the letter stops short of endorsing the enactment of H.R. 50.

Mr. **Hawkins.** First let us try to verify what goal you're talking about. What is your definition of full employment? You indicate on page 21 of your statement a commitment to full employment and in several different instances you definitely support the idea of the concept of full employment. You simply say we differ on the definition.

Now, turning to page 21 to be a little more specific, you say at the bottom of the page.

> I would like to reemphasize the commitment that we have and I believe that every American shares toward the goal of full employment in our society. I firmly believe that we are making real progress toward achieving that goal and that we have much to be proud of in our free democratic society.

Quite apart from moralizing, there is a lot of phrase there. Just what is that goal that you say we are committed to and that we are very close to achieving? Will you be a little more specific?

Mr. **Kolberg.** I can't be as specific as you are in the bill, Mr. Hawkins, because I don't want to set a number. I don't want to set 3 percent as the thing we're striving toward. I'm really——

Mr. **Hawkins.** That is an interim target. The bill does not set that figure as a goal, so apparently you didn't read that part of the bill. But apart from that, what goal would you set or how would you define full employment? You say you are committed to full employment, now how would you define that to which you are committed?

Mr. **Kolberg.** I guess I could use some words to define it, and I don't know whether you and I could agree on the words or not. What we're really talking about is trying to provide an adequate income for families in our society. That is really what we're trying to get at.

Mr. **Hawkins.** For every family or for some families?

Mr. **Kolberg.** I don't leave out anyone. We're moving in that direction.

Mr. **Hawkins.** Would that include women in that family who desire to work?

Mr. **Kolberg.** I suppose so, Mr. Hawkins.

Mr. **Hawkins.** You suppose so? Does it or doesn't it? Will you be as specific as possible in defining what you assume to be full employment since you apparently disagree with the approach in this bill.

Mr. **Kolberg.** In terms of the philosophic discussion that we're having about what full employment is, as I said earlier, and I noticed you were disagreeing with me by your actions——

Mr. **Hawkins.** You read more into my actions than anyone else.

Mr. **Kolberg.** I don't really believe every upper income woman or every upper income teenager in the United States deserves a guaranteed job. I don't believe you believe that either and I can't imagine that our society is ever going to adopt that as full employment. So we're going to stop somewhere short of that, I assume. Now, where are we going to stop? I ask you again how long should someone be unemployed before the Federal Government becomes the employer of last resort or whatever other words you use? Is it 5 weeks, 10 weeks, 15 weeks? Or are we going to use a means test, an income test? I don't know.

Mr. Hawkins. Mr. Kolberg, you're asking me the questions. I'm trying to get an answer to my first question and that is, your commitment to full employment. Now, you cannot deny that in your statement you say we have a commitment. Do you agree with that commitment? Now, with which commitment do you agree? What is your definition of full employment? Can you be specific as to what you are talking about when you say you are committed to full employment? I'm not asking you to disagree with me. You can criticize H.R. 50 all you want, but I'm trying to find out what it is that you and the administration are committed to in terms of full employment? Does it mean so much unemployment? How much unemployment does it mean? Does it mean every person able and willing to work? Does it include or exclude women who may desire to work, but in your statement, apparently are not supposed to be in the labor market in the first instance? Just what does it include? You have left us, I think, with a great degree of confusion as to what it is that this administration is committed to.

Mr. Kolberg. As a statement of the goal of this society, Mr. Hawkins, I would be willing to stand with what the Employment Act of 1946 says. It's the law of the land and I think every administration since its enactment has supported it. I think every fair minded American supports it and I will be willing to stand with that definition.

Mr. Hawkins. You mean you believe it means maximum employment, production, and purchasing power, and that the commitment in the Full Employment Act of 1946——

Mr. Kolberg. I'd be willing to stand on the words in the act.

Mr. Hawkins. Let me use the words of the act. The act says, "We are committed to a program to provide useful employment at fair rates of compensation to every person able and willing and seeking employment." Now, is that your agreement with the concept of full employment? Do you agree with that?

Mr. Kolberg. I am not sure if that is what the act says, but I'm in agreement with that concept.

Mr. Hawkins. Would that include women whom you've just eliminated on the basis they may come from families with high incomes? Would that not include those whom you've just rejected a few minutes ago?

Mr. Kolberg. At some stage maybe our society may get to the point where we can perform that way. I don't believe it will get that far in 4 years.

Mr. Hawkins. Do you think the program of the administration is going to get us any place in the next 4 years as you've outlined on page 4 of this statement? You say the program will get us there in 4 years? You have tax incentives, every one of the proposals has a tax incentive of some kind and only one is other than a tax incentive and that is important public works, which on page 18 of your statement you actually repudiate although on page 4 you mention public works.

But on page 18 of the statement you indicate: "Although public works programs produce tangible long-term benefits there are difficulties in using massive public works programs as a countercyclical strategy."

Mr. KOLBERG. We're really talking there, Mr. Hawkins, about accelerated public works programs, the types we've tried in the past, not building veterans hospitals and that sort of thing.

I assume from the bill, Mr. Hawkins, that you and I would both agree on the matters discussed on page 4 of my statement, because my reading of the bill leads me to conclude that your first priority as is ours, is creation of private sector jobs. Title 2 of the bill is really compensatory, to make up for the shortfall in private sector jobs and so I hope you hope, as I hope, that the matters we talk about on page 4 work and get us to 3 percent. We don't think they will get us there in 4 years. Apparently you don't think they will in 4 years, either. But let us hope they get us a long ways down that road because I think that is the preferable road. And that's the way I read your bill —you're not casting away the free enterprise at all. That's the most important part.

Mr. HAWKINS. That's the first time you've given any indication you might have read the bill.

Now, I agree with you on many of those proposals contained on page 4 and I think if you had read the bill, you would understand that we emphasize fiscal and monetary policies as a first line of attack. Yet, two-thirds of your statement is on public service jobs as H.R. 50 emphasizes public service jobs, and you have just said that you consider that a terminal program after having read H.R. 50, yet you go into a question of public service jobs.

On page 13 you say: "A final concern we have is that emphasis in the bill is placed on creation of public sector job slots." Now, that is what you've said and yet having read the bill with its great emphasis on monetary and fiscal policy, some of which you have outlined and some of which we agree with you as a first line of attack, you would then assume that what we're talking about is public service jobs. Then, you go into a lengthy oration on why that isn't going to work. That is why I question whether or not you had really understood the bill or put the parts of the bill together.

Mr. KOLBERG. I should have said this earlier, I suppose, to the committee members. I'm the Administrator of the Employment and Training Administration and I'm before the committee we usually appear before. I'm not an economist and, therefore, my purpose this morning was not to try to appear as an economist to discuss with you the monetary and fiscal policies involved with your bill. I thought the primary reason your committee wanted to hear from me was to hear the thoughts we had in the Department of Labor relating primarily to the compensatory programs involved here. That's what I was trying to do and I apologize if the statement, therefore, is unbalanced, in your view.

Mr. HEWITT. I would point out in supplement to that, that the administration, the Congressional Budget Office, and every other economist that I can think of who has spoken on the matter, has indicated that acceleration in growth of GNP to the extent to reach that objecive of 3 percent unemployment rate in 4 years would entail inflationary pressures that are unacceptable. If that is to be done, if you are to get the 3 percent in 4 years, then it would seem that the only alternative, since you can't overheat the economy enough to get there without creating unacceptable inflation, is to use the options you have suggested be developed under title 2. Again, the principal one again, it would seem, under whatever name it comes, would be public service employment.

Mr. HAWKINS. You've brought up another question and this is a long one. It apparently is the position of the administration when you speak of overheating the economy, and I assume by that you mean that putting people to work would be overheating the economy and would be inflationary. Is that the conclusion you have drawn?

Mr. HEWITT. It is very possible to take monetary and fiscal measures, in pursuit of putting people back to work that would overheat the economy. If the growth in the economy is at a prudent pace then it doesn't have to result in overheating, but it will take longer than the amount of time this bill envisions.

Mr. HAWKINS. What is a prudent pace? How long is the goal of full employment as proposed by the administration to be reached and what is your target for 1980 with respect to unemployment? Do you have any specific target that does not fall within the category of overheating the economy? Is it your position that as a tradeoff of jobs it's necessary to continue unemployment at high levels until 1980 in order to fight inflation? Do I understand that is what you're saying?

Mr. HEWITT. I don't believe so; to my knowledge the administration hasn't set goals for 1980 so I would not be able to indicate to you what they are. I don't believe there is a direct tradeoff between unemployment and inflation. They result from operations in the economy but they are not directly, statistically related to each other in a cause and effect manner. Putting unemployment up doesn't bring inflation down. We saw that before.

Mr. HAWKINS. What did you refer to when you said overheating the economy and that we might move too fast toward the achievement of full employment?

Mr. HEWITT. It is possible to generate through monetary and fiscal policy the pursuit of a level of aggregate demand that would result in inflation.

Mr. HAWKINS. Let me ask you about performance under this Administration for the past 7 years. During this time we've had two recessions, and the last one 1973–1974 certainly wasn't due to overheating of the economy, in fact, just the opposite. We haven't had excessive aggregate demand as you suggest.

Mr. HEWITT. On a worldwide basis, we have.

Mr. HAWKINS. Wages have lagged behind. I want to talk about present performance and see how you justify that and how you explain the recession through which we've just passed, the second one during this administration, for which the administration is responsible. Now to what do you attribute that poor performance which is the worst we have had since the great depression of the 1930's? It certainly wasn't due to H.R. 50 and it certainly wasn't due to any targeting, a full employment target. How do you explain full performance that we have gone through during the 7 years of this administration?

Mr. HEWITT. I'm not prepared to discuss all 7 years, but this last recession was significantly triggered by worldwide events that affected energy prices and commodity prices, primarily foods, and had severe repercussions in our economy.

Mr. Hawkins. Was it due at all to excessive interest costs?

Mr. HEWITT. They were accompanying it, certainly.

Mr. HAWKINS. Was it due at all to devaluation?

Mr. HEWITT. I wouldn't think it was due to our devaluation, if you mean devaluation of the dollar a couple years ago.

Mr. HAWKINS. It was just simply due to two unfortunate circumstances in your opinion?

Mr. HEWITT. They had a major formative role in the creation of the recession.

Mr. HAWKINS. Would continued high prices for energy, let's say specifically for oil, as proposed by the Administration also be inflationary?

Mr. HEWITT. One has to be very concerned about the high prices of oil and its impact on the economy in terms of its prospects for achieving maximum employment. Yes, sir.

Mr. HAWKINS. Would the pronounced statement of the Administration that they would veto the new proposals for antitrust legislation be significant in terms of inflation?

Mr. HEWITT. I'm afraid I can't address that.

Mr. HAWKINS. Mr. Chairman, I don't know how much is going to be served because apparently we have a very different point of view or approach.

On page 8 of this statement—let me just spend 1 minute more if I may—on page 8 you speak of the unemployment rate of 3 percent as defined in this bill and you say we've only achieved that once since 1948. Now, let me ask you this, are you aware that unemployment was reduced from 6.8 percent in 1961 to 3.5 percent in 1969 and that in 1941 it was further reduced to 1 percent which we achieved by 1944. In other instances, and I think it can be well documented historically, we have had remarkable success in reducing in relatively short periods of time the unemployment rate to rather low percentages; that is, in and around 3 percent.

Now in view of that, how can you possibly say it's unrealistic to attempt to do it during this Administration which has had 7 years to do it and which, if reelected, will have 4 more years between now and 1980. If you are not in agreement with some type of target, what can we expect between now and 1980 in terms of economic growth, in terms of production that would achieve something reasonable, if not 3 percent, something in that neighborhood. In other words, what are you proposing to do in lieu of H.R. 50 and what are your targets? Do you have any goals other than simply forecasting what may happen without trying to cause it to happen, without formulating any programs or policies, or without changing any policies to make it happen? What do you propose to do between now and 1980?

Mr. Kolberg. Mr. Hawkins, I have two comments. First of all, the periods of time of lowest unemployment that you are relating and that I related in my testimony, in each case are wartime. The question is whether we can attain the 3 percent in a peacetime economy. You say we can, but we haven't done it.

Second, —

Mr. Hawkins. Then you're saying we cannot achieve full employment? Are you saying that?

Mr. Kolberg. No, I'm looking at the same historical record you're looking at and saying we haven't done it except in a wartime economy. Therefore, history must tell us something, which is that it is very difficult to do and one has to push it pretty hard, borrow a lot of money, and all the other things one must do in order to push unemployment down to 1 percent. As you said in 1944 we put everybody to work, all right. With 20 million people in the armed forces that's not too hard to do.

Mr. Hewitt. We had serious inflationary pressures that ensued, too.

Mr. Hawkins. How is it that other industrialized nations can achieve 3 percent unemployment?

Mr. Hewitt. They count their unemployment differently.

Mr. Hawkins. Yes, but I'm counting comparably and we've had several studies when we did that. As a matter of fact you did one yourself and converted their method of counting to our method and we still are under 3 percent. As a matter of fact, the way they count we're talking about 1 and 2 percent. Well, are we to draw the conclusion then that we can never achieve full employment; that it would be inflationary or it would have to be wartime and I don't know when we're not at war.

Mr. Hewitt. Depending on how you define the 3 percent unemployment, it seems to me the objective of a competitively provided job—that is to say, one provided by the competitive labor market including the normal public sector—for everyone who seeks work is a very good objective for the country to have. To add on to that that you are going to guarantee a subsidized public job to every individual, if you don't achieve that for every individual, I think is where you run into a problem.

Mr. Hawkins. Again, you're talking about public subsidized jobs and ignoring completely the use of fiscal and monetary policies that we've been using which have been disgracefully incorrect and you're ignoring that altogether and concluding that the private sector cannot produce jobs even when stimulated. That is the only way that the terminal public jobs that we speak of would be costly. It would be that there would be a complete failure of our monetary and fiscal policies; is that not so?

Mr. Hewitt. What we're suggesting is that you cannot reach 3 percent unemployment in a brief period of time just with fiscal and monetary policies.

Mr. Hawkins. Well, will you tell us what rate of unemployment can we reach in what time?

Mr. Hewitt. I think that the Congressional Budget Office suggested that a rapid growth rate that was reasonably achievable with price stability would get unemployment down to 6 or 6½ percent by the end of this decade—or figures along that line. That is not a desirable level of unemployment but it's what they have projected as the maximum aggregate fiscal and monetary policy could achieve.

Mr. HAWKINS. Apparently you haven't read their latest report in which they indicate that they have not considered all the methods that could be used and which would be used under H.R. 50 to reach that objective and they, too, are talking basically about public service jobs.

Mr. HEWITT. If you have recourse to public service jobs and you have to determine who is entitled to public service jobs. This is exactly the point that Secretary Kolberg was addressing earlier with regard to potential members of the labor force who could be induced into seeking jobs in a very advantageous work setting, wages, and so forth.

Mr. HAWKINS. If you disagree with that, then I suppose it's true we draw the conclusion that we should not encourage people to work, and we should do everything as you have done to discourage them and to keep them out of the labor market and not even to count them as even being in the labor market.

Mr. HEWITT. That certainly is not what we would suggest at all. What we would suggest is that it is not appropriate to subsidize public jobs for individuals who have no need for them in terms of their family composition and income and who would not even be in the labor market were it not for the opportunity for such public jobs.

Mr. HAWKINS. Is it proper to encourage private industry or the private sector to employ individuals through proper monetary and fiscal policy without any limit?

Mr. HEWITT. To the maximum employment that can be reached within a reasonable price stability range; yes sir.

Mr. HAWKINS. You agree with that?

Mr. HEWITT. Yes, sir.

Mr. HAWKINS. Now, let us say you do that and you do all the other things, the countercyclical aid, the youth employment program and the many other accelerated public works programs which apparently you agree with, and let's say you get down to the point where all these other efforts fail, would you at any time, as a terminal program, or as a matter of last resort, use public service employment on that basis?

Mr. HEWITT. Not totally unselectively for any individual who decided they were unemployed that week and wanted to come and get a public service job. I think you have to have some other eligibility or entry criteria related to their need.

Mr. HAWKINS. What would you do for the individual then? Would you offer welfare or what would you do?

Mr. HEWITT. If they were in a position where welfare was their only alternative to income, then one would assume they would pass any set of eligibility criteria that might be established.

Mr. HAWKINS. Let me read on page 6 of the statement, "The Commission for Manpower Policy" to which you owe some allegiance, you're a member of it.

Mr. KOLBERG. Let me state again, Mr. Hawkins, I owe no allegiance to that statement.

Mr. HAWKINS. Well, now you're beginning to disagree with it.

Mr. KOLBERG. It was never cleared with me and I will make that clear to the chairman.

Mr. HAWKINS. I thought you said you generally supported it, in that it did not in any way suggest anything sympathetic toward H.R. 50 and that I had misread it. Now, when I begin to read to you what the statement says, you begin to say that you repudiate it or you deny it.

Mr. KOLBERG. I apologize, Mr. Hawkins, go ahead.

Mr. HAWKINS. There is no need in my reading it, because you probably disagree with it. Mr. Chairman, I think I've taken up more than my time now.

Mr. DANIELS. The gentleman from Rhode Island, Mr. Beard, do you have any questions?

Mr. BEARD. Yes, thank you, Mr. Chairman.

I've been here almost a year and a half in the Congress as a freshman member and I come from a State where we have almost 14 percent unemployment, the State of Rhode Island. All I know is that looking at the track record over the last 10 years the administration's contribution of trying to solve some of the unemployment was the closing of the Davisville and Quonset Naval installations, a complete wipeout of 5,000 jobs and most recently a shifting of some of the regular forces and a lot of the civilian jobs down at Fort Devens, Mass. in the name of, as the minority side would say, the programs we have for the private sector.

In the name of coexistence with China we are now importing raw cloth and it's hurting the textile industry, it's hurting people who work with cotton and raw cloth in the southern parts of the country. Multinational corporations that now create jobs overseas in Taiwan, have shoes made in Spain, all sorts of products that you see on the American market that are just virtually wiping out the American market in this country.

Now, that is the administration's contribution and all in the name of trying to get this country back to work. We don't have a recession in Rhode Island; we have a depression. As a matter of fact, I was reading an old newspaper somebody brought to my attention, around 1941 or 1942. It reported around 12 percent unemployment in the State of Rhode Island. We have higher unemployment now, so Rhode Island isn't in a recession; it's in a depression. I'm talking about my State. If we could come up to the national unemployment rate it would be a break.

Since I've come into the Congress, Democrats have talked about the public service type of program and also some stimulation of the private sector. I've heard the Republican party and the administration talk about that big guy, help that big guy, make the tax breaks, get the private sector working and everything will be fine, but that's not happening. Whatever programs Nixon and Ford have put into play, they haven't worked because we have a hell of a lot of unemployment in Rhode Island. All I know is that the administration has pulled the rug on us in Rhode Island, has crippled us in Rhode Island and created the unemployment, has put a drain on the taxpayers of Rhode Island with all the unemployment compensation.

That's the track record and you can't say it's not there. Do you know what 5,000 jobs is for the State of Rhode Island that is 50 miles by 30, less than 1 million people? That's the administration's contribution to the so-called bringing this country back up on its feet again.

I'm all for peaceful coexistence with foreign countries including Communist China but when they have cloth, for example, imported into Rhode Island, you're putting people out of work. Sure it's nice, they can get it cheaper from China. But all the tremendous imports of shoes and all the products you see on the markets from foreign countries, you're wiping out the American worker.

I think there has to be a balance. We need public service jobs and I think the President should realize that. Talk to the guy on the street, not the bureaucrats. Talk to the guy on the street and he will tell you what is needed.

I've been on all sides of this ball game. I've been unemployed. Two years ago I swung a paint brush for a living and now I'm in the Congress. I'm talking for the average guy and I'm telling you what you people aren't listening to. I'm telling you right now whatever you've done over the last 10 years hasn't worked and you've created a depression in Rhode Island; 500,000 jobs went down the chute and a lot of Democrats and Republicans voted against it, they voted against overriding the President's veto. The President's track record is deplorable, let's face it, the way it is. What you have done so far hasn't worked, so let's try something different and that's really about the size of it.

I'm disgusted at the last 1½ years listening to big business. The Republican philosophy is to help big business to get this country moving again and it has only crippled Rhode Island. How in the hell are you going to have low unemployment in a region like Rhode Island and New England when the President orders these military bases to be pulled out? You're adding to the unemployment, you're adding to the burden of our State and that is really what it amounts to.

What's your answer on that one?

Mr. **Kolberg.** A very good speech, Mr. Beard.

Mr. **Beard.** It's not a speech, it's a fact. You come to Rhode Island and you talk to those people and they will tell you the same thing. The facts speak for themselves; 5,000 jobs gone, almost 14 percent unemployment and you tell me whether that is a recession or depression figure.

Mr. **Daniels.** Is there anything further, Mr. Beard?

Mr. **Beard.** No, I yield back the balance of my time.

Mr. **Daniels.** Mr. Secretary, you've given several reasons why you're opposed to H.R. 50, among which is that section 205 of this bill duplicates programs already administered by the Department. Now, if you're not in favor of this section, should we give up on the question of resolving high unemployment for our youth? What does the administration propose to do about it? We have over 20 percent of our young people unemployed and over 35 percent of our minority young people are unemployed.

You state in your statement on page 19 that title I of CETA serves approximately 60 percent of our youth, and under title III of CETA, the Department is responsible for providing a variety of programs to serve young people. Are we adequately taking care of these young people today under the CETA programs presently in existence?

Mr. KOLBERG. The first part of my answer would be to note the major commitment on the part of the Congress under CETA toward young people. Sixty percent really amounts to 60 percent of about $1.6 billion. So, in other words, the bulk of title I of CETA goes to programs run by state and local prime sponsors for young people 16 to 21. That does not include half a billion dollars for summer youth employment and certainly doesn't include funds for the Job Corps which is about $175 million now. So one can easily get a figure of over $1.5 billion out of CETA devoted to this age category.

Now the next part of your question is whether that is enough? Well, it's a sizable commitment. Certainly there continues to be high youth unemployment. There isn't any question about that. I think we'll see the local prime sponsors doing a better job of weaving these programs together, but that probably still won't cure all the problems. The problems really relate to an endemic problem in our society of transition of school to work, which we all have talked about a great deal before. That is, how are we going to do a better job in the schools of our society in getting people ready to move from those schools either into higher education but more importantly into the work place. We haven't done as good a job as we should.

Mr. DANIELS. What program is the administration advocating to pick up that gap?

Mr. HEWITT. Mr. Chairman, I think the administration would agree that the problem is serious and they are looking for ways to deal with it. I assume, although it hasn't been articulated in quite this fashion, they would say the programs we have, have not been demonstrated to be so perfect that we're willing to put all that much more money into them. But we don't know what else to do at this point in time. We are working on a few experimental things under the leadership of the Department of Labor to try to develop some ways of making this school to work process more successful than it produces now for most people. But we don't have any panacea, at any price, to put on the table for that problem and we don't see it in the bill. All it does it tell the administration to come up with a program. If we knew what the program was and how it would work, I'm sure we would be in there with it now.

Mr. DANIELS. Does the administration have a comprehensive employment policy to take care of this unusual and unprecedented level of unemployment from which we have been suffering for the past several years other than giving tax incentives to large corporations?

Mr. KOLBERG. Apparently, Mr. Chairman, 900,000 jobs for youth this summer is something one discounts just like that. It's nothing. I would say that already this is a major commitment on the part of the American people toward taking care of the problem of youth unemployment. Now maybe it doesn't go as far as maybe you or I would like to go, but let me say that if there were some "silver bullet" solutions to easing the transition from school to work, of cutting the unemployment rate for kids 16 to 19, then we don't know what they are. We already have a major commitment out there. Prime sponsors are spending a great amount of money on trying to discover ways that work in their community to get at this problem and we continue each year to increase the resources to address this particular problem.

Mr. DANIELS. The Department of Labor maintains records on unemployment in detail. Can you tell the committee exactly how many unemployed youths we have in America on an all year round basis?

Mr. HEWITT. This is a seasonally adjusted figure. On a seasonally adjusted basis in March of 1976, unemployed, of both sexes, age 16 to 19 totaled 1.7 million.

Mr. DANIELS. The Secretary in his testimony mentioned that present youth programs take care of youths during the summer months to the tune of 900,000. Now, what about the difference?

Mr. KOLBERG. Those are public jobs, that 900,000. That doesn't count jobs provided by private industry at all. Those are just the public jobs.

Mr. DANIELS. How much of the differential does private industry pick up?

Mr. HEWITT. NAB has a goal for 200,000 jobs. They oversubscribed them last summer. They expect to well overshoot that this coming summer. There are a lot of summer job programs, for kids, in the private sector which add substantially to employment of young people in the summertime.

Mr. DANIELS. Hopefully the private sector will take care of these unemployed youths during the rest of the year, but the summer youth program only takes care of these kids for a period of 3 months. After that 3 month period of time expires, what happens?

Mr. HEWITT. The kids go back to school, they are not employed.

Mr. DANIELS. How about those kids that don't go to school, that don't further their education, should we give some consideration to them?

Mr. HEWITT. Yes, we're spending over $1 billion a year through CETA for those kids that are basically in the labor market full time. They typically have very short spells of unemployment. The predominant enrollees in this CETA program are in public jobs called work experience, skilled training programs, and on the job training programs. This is the bulk of the enrollment under title I by CETA prime sponsors.

Mr. DANIELS. As I see it, all these programs are meritorious but they don't go far enough. We are not taking care of the need and urgency of providing jobs to the other youths of our country.

Mr. HEWITT. Certainly youth unemployment continues to be a significant problem. There isn't any question about that. The numbers speak for themselves.

Mr. DANIELS. On behalf of the committee, I want to thank you, Mr. Secretary, Mr. Kolberg and Mr. Hewitt for your courtesy today and again I repeat I'm sorry for the undue delay.

Our next witness is Mr. Jacob Clayman, secretary-treasurer in the Industrial Union Department, AFL-CIO. Mr. Clayman, I understand you are accompanied by Mr. Richard Prosten, research director?

Mr. CLAYMAN. That is right, sir. Mr. Chairman and Congressman Hawkins, I think I will dispense with the reading of my statement and perhaps save some time.

Mr. DANIELS. With unanimous consent the statement of Mr. Clayman will be incorporated into the record at this point in full.

[Document referred to follows:]

PREPARED STATEMENT OF JACOB CLAYMAN, SECRETARY-TREASURER, INDUSTRIAL UNION DEPARTMENT, AFL–CIO

Mr. Chairman, we thank you for the invitation to testify today with regard to the Full Employment and Balanced Growth Act of 1976, H.R. 50. I know that you and the members of the Committee are already aware of the AFL–CIO's support for the Humphrey-Hawkins bill, but with your indulgence I would like to discuss with you some of the reasons that we feel its passage is so important.

The unemployment rate in this country is tragically high. The announcement, last Friday, of a drop in the "official" unemployment rate to 7.5 percent, makes the passage of this legislation no less imperative. A few months of marginally good news on the employment front is no reason to hold-off legislation which would enable the government to plan a healthy economic future for our citizens.

It seems most appropriate that we plan our way out of this crisis, since much of our current unemployment was planned. It was planned by a callous administration that decided it was the way to whip inflation. Someplace, somehow, this country had foisted upon it the idea that government planning in socially significant areas was somehow un-American. But planning should not be thought of as a bad word. Big business plans product, sales, and distribution strategies—frequently years in advance. Planning for the welfare of our citizens must not continue to occupy the position of an alien ideology in our society. The Humphrey-Hawkins bill represents a very significant move toward progressive social planning.

I do not like to use metaphors involving war. But we have no choice other than to declare a war on an epidemic of unemployment—one which is sapping our nation's ability to maintain the living standards of its citizens and its position in the world at large.

Our haphazard approach to national economic health leaves us looking like economic Neanderthals. Other economies, including those of West Germany and Sweden, have managed to weather periods of economic difficulty in far better condition than we have. Our government, besieged by unemployment, has done little to alleviate the condition and has in many ways exacerbated it. For example, many of our major corporations receive what are, in effect, government subsidies to export advanced technology and investment capital and in the process we have lost one to two million badly needed jobs.

The dollar costs of unemployment are staggering, and the social costs, while hard to estimate in monetary terms, are overwhelming. Based on current figures, each one percent of the labor force that is unemployed results in the government losing some 14 billion dollars in revenues, but that is just the beginning. Government expenses increase rapidly during periods of unemployment and, depending on who you listen to, the government dispenses anywhere from two to six billion dollars in transfer payments for each one percent of the labor force that is unemployed. Yet the administration tells us that we need not worry: their plans for the economy forecast unemployment at 7.2 percent in 1977, 6.5 percent in 1978, 5.8 percent in 1979, and 5.1 percent in 1980. We feel that any unemployment in excess of 3 percent a year is unconscionable and economically destructive. To its credit, the Humphrey-Hawkins bill would bring us to the 3 percent level by 1980.

If the estimates of H.R. 50's costs—35 to 40 billion dollars per year—are correct, we would be getting a very good deal. If the government loses 14 billion dollars in revenue for each one percent of unemployment, a four-percent reduction in unemployment would save us more than enough to pay for this bill. But the savings would, in fact, be even greater.

The Office of Income Security Policy, Office of the Assistant Secretary of Planning and Evaluation, Department of Health, Education and Welfare, prepared a study in mid-1975, which attempted to estimate the cyclical behavior of major transfer programs. While some aspects of their models were not quite on the mark, and some of their expenditure predictions were a bit large, the study nevertheless reflects a substantial attempt to provide a basis for decisionmaking in an economic situation such as the one we are currently faced with.

While it would be unfair to suggest there is a simple, straightline relationship, their work does suggest that each additional one percent of unemployment brings on six to nine billion dollars in transfer program payments. We have extracted some of their work as it relates to six programs (see Table I) and cannot help but notice that a tremendous financial burden will be faced by the taxpayers for as long as massive unemployment is with us.

As you can see from Table I, the study set up two regimes for each quarter in 1975 and 1976. The "predicted" costs (based on an apparently overly pessimistic econometric model) are contrasted with probable expenditures in the same categories if we were at a five percent unemployment level—"no recession" in the terminology of the study. (We have not included in this resume of the ISP technical paper the 1.6 billion dollars per year that they estimated would be expended for public service employment programs.)

According to the ISP calculations, if unemployment in the last quarter of 1976 is at 7.5 percent, these six programs alone could cost 20 to 26 billion dollars per year more than if we were at a 5 percent unemployment level. Just imagine the additional savings if we were able to get down to the 3 percent unemployment level contemplated by the Humphrey-Hawkins bill.

As John L. Palmer, senior fellow at the Brookings Institute recently noted:

"Actual federal expenditures are expected to be in the order of 23 percent of GNP for 1976, up from a level of 20.5 percent in 1970. But this recent increase neither reflects nor necessarily portends an upward trend in this figure. The reason is that the current recession has the dual effect of temporarily raising federal expenditures above and lowering GNP below their respective longer run growth paths. If the economy were operating at the full-employment level of 5 percent, federal expenditure would be about 20 percent of GNP. Outlays in major income security programs (such as unemployment insurance, food stamps, AFDC, and Medicaid) are very sensitive to the aggregate unemployment rate. Thus, they will be over $20 billion higher in 1976 than they would be if unemployment had remained at the 5 percent level of 1973. Similarly, estimates of GNP are on the order of $150 billion less than it would be if we were at this same level of more full employment. As the economy moves out of the recession these temporary effects on GNP and federal expenditures will be reversed and the ratio of federal expenditures to GNP will decline."

It not only makes sense to save these dollars—it is suicidal to do otherwise.

I mentioned earlier that unemployment has many societal costs that appear to be beyond quantification, at least at the present time. For example, it will be a number of years before we can determine with certainty the effects of the recession on the earnings patterns of minorities and find out whether or not the recession has interfered with what had been a gradual narrowing of the earnings differentials between whites and non-whites, but we suspect that sustained unemployment has not been a source of social justice.

There is substantial evidence that serious medical problems occur more frequently during periods of unemployment than during periods when people are working, as indicated in testimony delivered by Dr. M. Harvey Brenner of Johns Hopkins University to the Joint Economic Committee. The Committee synopsis of his findings notes that:

". . . trends in national economic indicators have a profound influence on the state of mental and physical health of the general population, as well as on aggression and other criminal behaviors. These basic relationships were discovered during the past three years at The Johns Hopkins University, and earlier at Yale University, by Brenner and his associates. In general, the national rate of unemployment, adverse changes in per capita personal income, and the annual rate of inflation (in that order) have the most serious effects on national levels of health and well-being.

"In this testimony, some of the effects or adverse changes in the economy were presented. Examples of these effects related to mental disorders, suicide, homicide, heart and other vascular diseases, alcoholism, and infant and maternal disorders."

Along the same lines is the work of Drs. Sidney Cobb and Stanislav V. Kasl, in their May, 1971 paper: "Some Medical Aspects of Unemployment." They suggest substantial medical problems relating to job losses which coincide quite closely with those reported by Brenner and his colleagues.

It is not likely that anyone can pin down the additional costs brought on by these cyclically-related increases in physical and mental disorders, suicide, homicide and the like. The loss by a family of a wage earner is both tragic and expensive. There are an endless variety of estimates of the potential earnings of those who die prematurely, but no matter what figure we apply, I am more concerned about the disruption and economic hardship to the surviving family that inevitably follows such an occurrence.

The New York Times of February 27, 1976, carried a piece offering additional evidence of the relationship between medical problems and economic hard times. It suggested that both government and private industry are experiencing substantial cost increases as the number of citizens who are classified as permanently disabled and are receiving disability benefits is increasing rapidly. Clearly this increase includes individuals who were previously ill or disabled but just didn't bother to seek treatment or claim benefits when they were fully employed. Some would suggest that this situation should be used to discount all increases in claims that occur cyclically. We do not and cannot accept that position. Unemployment causes bad health and death. We eagerly await the first manslaughter indictment of those who create or perpetuate unemployment.

Nor are we able to quantify the cost of the skill losses experienced by working people. As you are aware, many of them—and our members in particular—have finely honed skills which cannot be maintained during periods when they cannot be practised. How much does the waste of these skills cost us during a recession and how much more will it cost to reinstate them when and if the economy takes a positive swing? The same argument can be made about productivity in general. Idle plant capacity tends to lower productivity—the productive value of our investments in industrial facilities can only be realized with maximum utilization.

In modern day America, most people must define their lives in terms of their work. Only the very rich really have an option to not work. While it may be difficult for those of us who are presently employed to fully appreciate the plight of the unemployed, it is important to note what joblessness does to the human spirit. People without jobs are cast into a netherland where they have little hope and quickly lose their dignity and self-pride. Opportunities for individual entrepreneurship that once may have existed are no longer available to the bulk of Americans. The overwhelming majority of our population must rely on others for their employment. The evolution of our society has created this situation. We must fashion measures which respect that reality.

In 1969, unemployment in this country was 3.3 percent of the work force or about 2.7 million people. Today it is 7.5 percent on an official basis and unofficial estimates would raise that number by another few percent. We are talking about a minimum of 7 million unemployed Americans who are actively looking for work.

We look to H.R. 50 as a means of alleviating this situation:

1. It would make the providing of jobs at decent wages to all who are willing and able to work a national policy. The only persons willing and able to work that would be unemployed would be those whose unemployment was temporary —such as entrants into the labor force, people who were changing jobs, or those employed in seasonal industries.

2. It requires that each year, the President submit a full employment policy and program that would bring forth the plans, objectives and goals necessary to meet the country's economic and social needs.

3. It requires coordination of the various policy-making groups, such as the President and the various executive agencies and the Congress. It requires the coordination of fiscal and monetary policies and, for the first time, requires the Federal Reserve Board to enunciate its policies and programs and justify them in terms of the other economic programs being proposed by the executive and legislative branches.

4. It provides Congress with a much stronger voice in reviewing and acting upon the President's economic plans and policies.

5. It establishes a citizens' consultative body comprised of major groups in the economy to help channel advice and experience into on-going economic policy considerations.

6. It provides goal of good jobs at adequate levels of pay. To the extent that the economy's regular channels of private and public employment fail to achieve that goal, the government is to create a public employment program to provide those additional jobs needed to lower the unemployment rate to a maximum of three percent.

7. It establishes the priority of full employment as an economic goal, to be fostered along with the other economic goals that our country pursues. It would relieve workers from having to bear unfair proportions of the dislocations caused by the fluctuation of economic forces.

We are convinced that this legislation would allow our economy to operate more smoothly and bring the long sought goal of full employment much closer to reality. We think it provides reasonable and workable mechanisms to create the economic stability that we all seek.

TABLE I

[In billions of dollars per year]

Year and quarter	Unemployment rate	AFDC	AFDC-UF	Food stamps[1]	General assistance	Medicaid[1]	U.I.[1]	Cost of these six programs
1975								
I. Prediction	8.7	$9.[illegible]29	$0.571	$5.016	$1.161	$12.372	$22.964	$51.313
I. No recession	5.0	8.[illegible]43	.365	4.040	.905	11.540	7.912	32.905
II. Prediction	9.2	10.[illegible]94	.750	[illegible].280	1.379	12.892	26.836	57.631
II. No recession	5.0	8.303	.385	4.172	.879	11.612	6.112	31.463
III. Prediction	9.1	11.310	.675	5.568	1.546	13.268	25.136	57.443
III. No recession	5.0	8.407	.326	4.360	.896	11.540	4.756	30.285
IV. Prediction	8.9	12.073	.738	5.480	1.659	13.708	24.260	57.918
IV. No recession	5.0	8.545	.320	4.360	.959	11.556	4.408	30.148
1976								
I. Prediction	8.6	12.967	.907	5.672	1.660	14.268	29.484	64.958
I. No recession	5.0	8.683	.386	4.552	.976	11.724	8.248	34.569
II. Prediction	8.2	13.633	.961	5.616	1.542	14.748	23.456	59.956
II. No recession	5.0	8.812	.401	4.552	.945	11.856	6.320	32.886
III. Prediction	7.9	13.927	.746	5.572	1.496	15.080	18.920	55.741
III. No recession	5.0	8.887	.332	4.452	.963	11.964	4.992	31.590
IV. Prediction	7.5	14.211	.742	5.516	1.523	15.468	20.632	58.092
IV. No recession	5.0	8.996	.312	4.452	1.029	12.128	4.904	31.821

[1] HEW study used billions per quarter. For comparability we have multiplied quarterly figures by 4.

Mr. DANIELS. You may proceed to summarize your statement.

STATEMENT OF JACOB CLAYMAN, SECRETARY-TREASURER, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, ACCOMPANIED BY RICHARD PROSTEN, RESEARCH DIRECTOR

Mr. CLAYMAN. I was fascinated with the discussion this morning. I was impressed with the directness of Congressman Beard's observation when he said whatever the administration has been doing in these past years it apparently hasn't worked and that has to be pretty obvious to all of us. If we look at it mathematically and not otherwise that has to be pretty obvious. The official rate of unemployment as everyone now knows is 7.5 percent as of March. The real statistics are far beyond that.

In the AFL-CIO we've been saying that the actual unemployment rate is now 10.3 percent, about 9.7 million persons unemployed, and the official unemployment figure is not consonant with reality. The Government statisticians do not count, for example, what everybody now recognizes to be a fact; namely, a million or perhaps more than a million workers who are no longer seeking work and, therefore, are considered lost souls as far as the official counts are concerned. They don't consider the partially employed or the partially unemployed and if you consider the unemployed among both youth and the minorities, the figures get horrendous and I won't burden you with those figures. You know them.

Just the other day we discovered that in the building trades, unemployment in March rose from 15.5 percent to 16 percent and for the building trades this truly is depression. Sixteen percent reaches in many areas the level of unemployment that we had during the so-called Great Depression. Well, there are the figures as of the moment.

But what makes it more distressing for all of us is what the economists for the administration have come up with in the way of a set of figures for the future. In 1976 they expect unemployment to average out at 7.6 percent, in 1977 at 7.2 percent, 1978 at 6.5 percent, 1979 at 5.9 percent and 1980 at 5.1 percent.

Economists for the Department of Labor observed this morning, surprisingly to me because it's a new figure, that at the end of the decade unemployment will be 6.5 percent. Well, we're being conservative, we've taken one of the original observations of the administration's economists and have come up with 5.1 percent and in 1980—and that means if everything goes right, if everything goes well, that in 5 years from now we will reach a figure, an unemployment figure of 5.1 percent or 4,800,000 unemployed. I don't want to go into what this means to the spirit of the American people to contemplate that over a period of 5 years we will still have high unemployment. This means there are those who apparently will join forever the great mass of the unemployed if we do no more than we've been doing so far.

Mr. **Daniels.** Mr. Clayman, may I interrupt you at that point? Wouldn't that figure be considerably higher when you stop to realize the labor force is expanding as was indicated to us this morning by Secretary of Labor Kolberg with the influx of women into the work environment?

Mr. **Clayman.** I believe so, plus you must take into account that that figure of 5.1 in 5 years, assuming it to be correct is an official figure. The real figure will be utterly different as the real figure now is utterly different from the so-called official figure. And so we can look forward, if we simply accept the analysis of the administrations' economists, to mournful days, melancholy days for American society.

I had planned to go into some discussion of the reasons why we are in the recession we are in but I think I'll not permit myself pleasure because you have a time problem, except to say that we have planned unemployment. That is a sad commentary. We started out in the early seventies and 1969 to dampen the fuel, the fires of recession and our then economists who represented some thinking of the past and the conventional wisdom was that if we had unemployment we wouldn't have the business of inflation. Well, we now discover that that didn't work. We had both inflation and unemployment. Second, and I say this very quickly, the problem needs more observation, more discussion. We have no sense of planning in our country. It's an evil word and in my time has been considered an evil word, particularly if it were done by government. Planning by corporations is entirely sound as it should be. Any corporation in America of any size that's worth its weight plans exactly as it can for the short time and for the long run. It's the essence of wisdom, it's the essence of stability; but governmentally we've never seriously tackled the issue. I remember a couple of months ago, maybe 4 months ago the equivalent of the Secretary of Labor from Sweden came into our building and some of us had a chance to chat with him and he made this observation. He said if unemployment ever reaches 2 percent in his country, he would be without a job, meaning he would be fired and some of us asked him how he did it and he said, "We plan for it." Now obviously there are great differences between Sweden and the United States. Theirs is a relatively small country, ours is a much more complex country and obviously there are some serious differences but they "plan for it."

When, for example, unemployment reaches a certain level, let's say 1.5 percent or 1.3 percent, they have a whole laundry list of programs to put automatically into action and so they do it by careful management, by careful planning.

All right, now let me get quickly—well, there is one item I always talk about no matter what the forum and you will forgive me for mentioning it here but would you be startled if I told you that our research indicates that permanently we've lost 1,400,000 jobs because of the actions of American multinational corporations? Would it disturb you and shock you if I said this was done in our time, since 1960 with our exportation of technology, with our exportation of capital and ultimately, as I said, with our exportation of jobs, and these are little noticed in any of the proceedings in Congress, little noticed in any of our proceedings in our country? We are in the process now of developing a study which we will ultimately submit to every person in Congress, of course, which will show, I think, based on the statistics that are now available, there has been a permanent loss of 1,400,000 jobs and this, of course, is one of the problems.

Now, I want to spend whatever time I have left talking about the costs of unemployment, more specifically than has been done heretofore. We took a look at a study done by the Office of Income Security Policy of the office of the Assistant Secretary of Planning and Education of HEW. This study was done in mid-1975. They took only six items; they took unemployment compensation, food stamps, welfare, medicaid, aid for dependent children, aid for dependent children with unemployed fathers and now they came up with these figures. Just the increase of unemployment from 5 percent to 7½ percent—2½. They didn't go down to 3, they just took those figures, 5 to 7½ and they came up with this conclusion and somewhere I have some statistics jotted. They said those six programs would cost $58,100 million if the unemployment was at 7½ percent. If the unemployment was at 5 percent it would cost $31,800 million meaning that the difference between 7½ percent unemployment and 5 percent was $26.3 billion and those are only the six programs I talked about under the jurisdiction of HEW.

Now that means that roughly a cost of about $10 billion for every 1 percent of unemployment just in these six programs.

In our testimony we were extraordinarily cautious. We allowed for marginal error, we allowed for inflation and even allowing for those we came to the conclusion that it cost anywhere from $6 billion to $9 billion per 1 percent of unemployment based on only those six items. If you want to add some other items you can quantify them.

Mr. DANIELS. Mr. Clayman, the bells have rung for the second time indicating there is a vote taking place on the floor at the present time so I regret to say the committee will have to recess for a few minutes but we'll be back, I assure you very promptly.

(Whereupon, a recess was taken.)

Mr. DANIELS. Please come to order. You may proceed, Mr. Clayman.

Mr. CLAYMAN. Thank you, Mr. Chairman. I want to make the quick point to tie together what I had been saying prior to the adjournment, temporary adjournment, that when we talk about a loss of $16 billion in revenue for every 1 percent increase in unemployment we are decidedly off the mark. It seems to be held by everybody that the loss of revenue is $14 billion per 1 percent of unemployment. An extra $2 billion is added to cover all these items I've talked about and the fact is HEW itself has come up with that statistic. Keep in mind that HEW, of course, does not talk about a variety of other things. It doesn't talk about lost production. Leon Keyserling has observed many times that the loss in production is about $200 billion a year. And I haven't talked about the psychic loss at all, I haven't talked at all about the ravaging of human personality, lost pride and dignity and all the rest that normally we shovel off very quickly with a couple of sentences. But if anybody at all knows anything about unemployed people, they have to realize that something is happening to the American character and personality by the continued unemployment that we have in our midst.

And so if cost is an item and I suspect that is the item that is most consistently raised by those who oppose the Hawkins-Humphrey bill, we've got to consider what unemployment itself has cost. I know that Senator Hubert Humphrey has been using the figure of $35 billion to $40 billion a year to create full employment which apparently now is defined as 3 percent and if his statistic is correct and I cannot tell you if it is or isn't correct, but if his statistic is correct, we're spending many times more than that figure on taking care of unemployment in our midst.

And so, members of the committee, we are here to testify and add what little weight we can to the support of the Hawkins-Humphrey bill. In our judgment it is the beginning of good things to come if it becomes the law of the land. We see it achieving 3 percent unemployment in 4 years. We see the beginning of a serious planning and specific planning in America to keep our economy on a reasonably even keel.

That, Mr. Chairman is the sum total of my brief supplement to our formal testimony.

Mr. **Daniels.** Mr. Clayman, on behalf of the committee I want to express its thanks for your appearance and your testimony. As usual, your testimony is not only interesting but, indeed, informative and constructive and will make a valuable contribution to these hearings.

I just have a couple questions. Probably Mr. Hawkins, the author of this bill will have more extensive questions.

This bill, H.R. 50, provides a goal of attaining 3 percent of adult unemployment to be achieved within a period of 4 years after enactment. Do you think this 3 percent goal is a reasonable target? Do you think this target is attainable within that period of time?

Mr. **Clayman.** I think so, assuming this bill is passed essentially in its present form. It will revive the juices of our society and set us going and if I may add, I don't quite—I don't agree at all with those who argue that 3 percent means a runway inflation and over and over again it's been apparent to anybody who reads some of our economic history, for example in the early 1960's we had a burgeoning economy. We were growing and to those who say now that this will create inflation, I say it didn't happen then. On January 1, 1969, at least my figures tell me, we had unemployment at the rate of 3.3 percent and we were in decent shape in terms of inflation. In other words, we've had in our time several tests of a growing economy and inflation and history proves that inflation and growth are not concomitants that march side by side.

Mr. **Daniels.** In the course of your testimony I believe you made a statement regarding unemployment and inflation to the effect that high unemployment often increases with high employment. Now, you've been in the labor movement several years. Would you relate to this committee your experience with the relationship between high unemployment and inflation?

Mr. **Clayman.** Well, as I briefly tried to make the point, whatever history we have in our time indicates to the contrary that high employment does not fuel the fires—need not fuel the fires of inflation. Of course, if you have an absolutely price controlled, price manipulated society, you may have problems, but I think government has the power and the capacity to prevent that kind of control of the price mechanism by private industry and if we do that, I think we can keep inflation within reasonable bounds.

Interestingly enough, just the other day I noticed that corporate profits last year went over $100 billion, a new record, and this was done with 70 percent of production capacity being used which means one of the things we've got to pay attention to in the future and in the present, indeed, is the matter of manipulative pricing. It isn't a free market in the true sense of the word that we have in our country.

But to answer your question, I have great faith, because I'm a man of faith and I have great faith we can do the job we set out to do. The first step down that road, the first few hundred yards is the passage of the Hawkins-Humphrey bill.

Mr. **Daniels.** Are you in favor of public financing of public works and public service employment programs and do you agree there would be an actual saving of money using these Federal funds when compared to the expenditures the government makes in regard to unemployment compensation payments and social welfare programs?

Mr. CLAYMAN. My answer is clearly and definitely yes. First, I believe as the authors and sponsors of the bill before the committee believe that the private sector should be the principal source of job creation and I think this bill takes a deep bow in that direction. But if that falls short, then the government is the source, the last resort of job creation and I'm for this, not to just create jobs because America is so in need of refurbishing. We have, for example, our industrial apparatus. It needs refurbishing. Some of the other countires have outraced us in terms of modernizing their plants. We need the whole laundry list of mass transit, libraries, colleges, schools, hospitals, the national health programs and these may create the jobs and, of course, they will, but they will also, in the process, change the face of our society which so desperately needs modernization and refurbishing. So it's a kind of double-edged sword. It not only gives people the opportunity to live productive, useful lives but we leave something worthwhile for our progeny, for our inheritors.

Mr. DANIELS. Thank you, Mr. Clayman. I now recognize the distinguished gentleman from California, the author of the bill, Mr. Hawkins.

Mr. HAWKINS. Just a couple brief questions, Mr. Chairman.

First, I think, Mr. Clayman, we haven't had an opportunity to express our appreciation for the contribution which you have made to the development of the latest version of H.R. 50. I think you have been a tremendous source of help and inspiration to us. We want to express our thanks for the contribution which you have made.

There are two questions I would like to ask you. One is with regard to your reference to capital shortage which the administration, I think, makes a big issue of. In your statement you mention that we were actually exporting capital and I think the statement of the Assistant Secretary of Labor this morning indicated the tremendous obsession almost with the use of tax incentives. I would like you to address yourself just briefly to this issue of capital shortage as it relates to tax incentives, as the principal method, apparently, which this administration wishes to use in order to get business to perform better than it has.

You indicated a tremendous profit has already been made off many idle plants and equipment. I'd like to have your comments, however, on the question of whether or not the tax incentives, that the administration proposes will help us reach even the 5.1 percent goal in 1980. What is your reaction to that?

Mr. CLAYMAN. Generally speaking, I have not been one of those who feels favorably inclined toward giving tax incentives to those who already have probably too much at a cost to the entire community, because in the process of giving tax incentives, you simply place the tax burden more heavily on those who normally can't carry it as well as those to whom we give the tax incentives.

A couple of quick points. No. 1, $100 billion in profits in the corporate system means something must be going well. They ought to have reasonable sums of money to plow back into the economy and that, as I say, with production at 70 percent of capacity.

On the front that I alluded to, namely, American multinational corporation we last year shipped out for investment abroad, and some of it in competition with American industry itself that remains back here, $25 billion to $30 billion which is a hefty sum of money at least in my reckoning. The incentives we gave, oddly enough, encouraged the shipment of this money abroad and we've given incentives to American multinationals to go abroad, special tax concessions that American corporations don't enjoy remaining back here. So there is a case where tax incentives are counterproductive. Incentives have been drawing from our needs $25 billion or $30 billion a year.

But generally speaking, Congressman Hawkins, I personally am wary and I think the labor movement in America is wary about the too easy use of tax incentives in terms of American corporate structure. There may be situations where some form of tax incentive might be useful. I personally do not see it in the area of job creation.

Mr. HAWKINS. Mr. Clayman, another argument that is generally used by critics relates to wage rates. That is repeated this morning in the statement made by Mr. Kolberg on page 12, for example. He says:

> Another consequence of these measures is that there may result tremendous inflationary pressures due to the effect of the tightening labor market on wage rates which the bill does nothing to address.

Apart from that last phrase that the bill does not address this problem, which certainly is not true, but dealing with the statement itself—that the tightening labor market on wage rates is perhaps what many individuals fear—and perhaps the Davis-Bacon Act itself which has been alluded to as being highly inflationary, my final question is: can you give me an opinion on these arguments which are raised in opposition to full employment?

Mr. CLAYMAN. Well, my own point of view is, and I think I express the trade union point of view in America, that we shouldn't use Government to distort and destroy a man's skills, a man's training. What do I mean? Here is a man who has been an expert cabinetmaker and because he's an expert and has been trained and spent a lot of time developing his skills, he gets a decent salary and I don't think that our Government should be used to give that man the minimum wage and thereby divorce him, separate him, from a lifetime of training and the lifetime of experience.

I think this is inherent in the argument that let's cut the wages, that it is better to give them just enough to get by, otherwise you're going to have inflation. I don't accept that. I think a man who has had experience and training and has been given a job that requires skills, whomever he works for, Government or private industry, he ought to have those skills and that experience recognized for what it is worth and my own guess is, and this, of course, is somewhat theoretical but I believe enormously practical, we'll just destroy the morale of the ordinary worker in America if he finds himself employed one day and doing well and the next day we put him in a Government job that pays him one-third and this would be completely destructive of morale in the country. I think it would denigrate the basic skills of American workers, skills, incidentally, that are one of the reasons we have been able to be competitive in the world generally. That is my view.

Mr. Hawkins. I assume from that answer you do not believe our present economic difficulties are caused in part by high wage rates or too much employment?

Mr. Clayman. Obviously, we don't have too much employment. Wage rates in my time at least, consistently have raced behind the cost of living, so that it is rare, that wage rates ever catch up with the increasing cost of living.

Mr. Hawkins. Thank you, Mr. Chairman.

Mr. Daniels. Thank you, Mr. Clayman for your testimony.

Mr. Clayman. I must say the committee is patient for which I am grateful.

Mr. Daniels. Our next witness is Mr. Albert Shanker, president of the American Federation of Teachers, AFL–CIO, accompanied by Mr. Greg Humphrey, codirector of legislation.

Mr. Humphrey. Mr. Chairman, Mr. Shanker has been called away and was unable to be present. I'd like to ask that his statement which has been furnished to the committee, be included in the record at this point.

Mr. Daniels. I ask unanimous consent that the statement of Albert Shanker be incorporated in the record at this point. Is there any objection? Hearing none, it will be so ordered.

[Document referred to follows:]

Prepared Statement of Albert Shanker, President, American Federation of Teachers, AFL–CIO

Mr. Chairman, members of the Subcommittee: The American Federation of Teachers, AFL–CIO, an organization of almost half a million teachers and other educational employees, strongly urges that this Subcommittee promptly report out, and that the House of Representatives pass, H.R. 50. The AFT convention in July of 1975 endorsed this legislation. We have attached the resolution for your information. This bill represents our nation's only hope for a comprehensive program to deal on a permanent basis with the economic, social, and human problems caused by chronic high-level unemployment and runaway inflation.

A teachers' organization such as the AFT, in the past might not have recognized the necessity for a program to deal with unemployment except as a measure that represented good social policy. I am here today to tell you that while combatting unemployment is good social policy and we support it on that basis, it is also an absolute necessity if our education system is to become healthy again. The increased reliance of education on a tax system that reflects the business cycle has made education highly dependent on a growing economy.

We in the field of education have experienced over the past couple of years a combined phenomena of unemployment with its attendant decline in tax revenues and inflation with its eroding effect on the purchasing power of tax dollars to an extent that no one could have predicted only a short time ago. The results for education have been lay offs, "teacher surpluses," larger class size, and a trend toward putting education at the end of priority lists when hard decisions must be made about where scarce tax dollars will be allocated. For eight years now, we have had a policy in Washington that has produced two major recessions, one of which teetered on the brink of a full-scale depression, and retrenchment in the will of the Federal government to help meet the needs of our citizens. I am including a chart which shows the trend of Federal support for elementary and secondary education since fiscal year 1971. While that trend has shown increases in nominal dollars, the actual level of support in inflation-adjusted dollars has steadily declined. In fact, with the exception of F.Y. 1975, there has been a decline every year. The only reason fiscal 1975 shows an increase is because of the release of previously impounded funds which were appropriated in 1973 but only counted in 1975. This chart was produced by Senator Walter Mondale for use in the Senate Budget Committee.

We have all heard by now familiar statistics that every 1% in unemployment produces $17 billion in lost revenues to the Federal government (approximately twice as much as is spent by the Federal government on aid to education). The loss to state and local governments is also substantial, approximately $4 to $6 billion for each 1%. Increases in unemployment also affect state and local governments more dramatically than the Federal government because of the methods by which the two governments borrow. The credit needs of the Federal government are undeniable and unassailable. Treasury bonds are always sold, and if a shortfall exists in tax revenue, borrowing is authorized to cover the deficit. Many state and local governments, however, function under requirements that produce the necessity for a balanced budget and preclude borrowing for operational activities. Increases in unemployment cause lost revenues, increases in welfare costs and increases in the cost of other public assistance programs, and a loss in the tax base without the ability to enter the credit market and secure funds to cover deficits that the Federal government enjoys.

The current crisis in New York is a classic if extreme example of what can happen when the economy declines sharply. Financial institutions have doubts about the state and city's ability to pay, they restrict credit, and the result is a potential economic catastrophe. With this crunch comes a massive retrenchment in education since other services such as police and fire are seen as life and death protections. The termination of thousands of teachers and other educational employees, elimination of crucial support services such as guidance counselors, extra-curricular activities, and other programs that have distinguished the United States education system from the education systems of other countries are becoming commonplace as funds become short. Programs for the disadvantaged, special education for handicapped children, supplemental education for economically and socially disadvantaged children, go by the boards. Class size skyrockets to staggering proportions—from 30 to 40 to 50 and, in some cases, as many as 60 children in a class. The effects of this on education should be obvious to anyone who has ever been in a classroom. The process of education is changed into a babysitting function. A job which has always been difficult but rewarding becomes impossible, and without professional rewards, that which is most important to teachers, and here I mean the success of their students, becomes unattainable. The cutback in revenues in New York, for example, has almost completely eliminated the school security force, and we now have the final ingredient for disaster. Enormous numbers in a class prevent the achievement of academic goals which produces anger and frustration in teachers and students, the elimination of supportive services such as guidance counselors and special education turns the schools into a babysitting operation, and the elimination of school security because of cutbacks makes the school a tinderbox. They become dangerous, frustrating places when they could and should be the building block on which our society is based.

These are the symptoms of a disaster currently affecting American education and which is also affecting every other aspect of our public lives. The disease is unemployment and inflation. You, as a Committee, have before you a bill that can do something to change these dreadful circumstances in which education is now caught. The Full Employment and Balanced Growth Act of 1976, H.R. 50, is one of the great hopes of members of our union, and, in time, we believe virtually all of the members of the education profession. For the first time, this bill defines a level at which full employment will have been acquired—3%—and allows a sufficient time to achieve this goal so that the potential of rekindling inflation can be avoided. This bill also, unlike the Act of 1946, provides real methods and programs by which increases in unemployment can be dealt with such as public service jobs and counter-cyclical aid to cities and states and other jobs programs. It also requires that monetary policy which has been the almost exclusive preserve of an unelected, unresponsive, unrepresentative, and non-public agency—the Federal Reserve—be made public and be required to coordinate with other aspects of our financial and monetary policy, and that this policy be required to maintain full employment.

In short, we urge this Committee to report this bill as soon as possible. Teachers and educators and indeed the entire American public needs to know that the "can't do, go slow, veto" philosophy of the current Administration and its predecessor is not the final word as to where their government stands when it comes to dealing with their number one problem—unemployment and inflation. We urge speedy action on this bill. Thank you.

Attachment.

OUTLAYS FOR ELEMENTARY, SECONDARY, AND VOCATIONAL EDUCATION (SUBFUNCTION 501)—FISCAL YEAR 1971-78 IN FISCAL YEAR 1977 DOLLARS

Fiscal year	Outlays in constant fiscal year 1977 dollars [1]	Outlays in nominal dollars
1971	$6.3	$3.5
1972	6.1	4.0
1973	5.3	3.7
1974	5.0	3.8
1975	5.6	4.6
1976	5.2	4.8
1977	5.1	5.1
1978 [2]	5.1	5.5
Fiscal year 1977 adjusted for nonenacted appropriations	4.6	4.7
Fiscal year 1978 adjusted for nonenacted fiscal year 1976 appropriations [2]	4.6	5.1

[1] Adjusted for annual changes in per-pupil expenditures.

[2] Because of forward funding, fiscal year 1978 outlays for this subfunction are largely determined by fiscal year 1977 budget authority.

STATEMENT OF GREG HUMPHREY, CODIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF TEACHERS, AFL-CIO

Mr. HUMPHREY. I'd like to make a few remarks which represents the point of view of the American Federation of Teachers as to why this piece of legislation is needed.

From the point of view of what has happened with the U.S. economy probably the most corrosive effect of our current epidemic of unemployment has been the retrenchment not only in the ability of Government to provide a decent level of services on the local level in which we include education, but the whole philosophy that somehow or other we are in a period of time where things can't be done. I was not surprised, but saddened to hear the administration witnesses this morning talk about this bill as yet another example of Government promising too much to the people and producing disillusionment.

It's better, we think, that a bill like this be attempted, that the programs spelled out in this bill be enacted and be given a chance than it is to sit back and say that rather than raise your expectations we'll do nothing and hope that the private sector in its infinite wisdom can solve the problem.

From the point of view of a public service union—with almost a half a million members we face on the local level the combined crisis of unemployment, increased welfare costs and loss of revenue. The local government and State government then increase taxes with a resulting loss of tax paying citizens who leave because of the high taxation. The resulting cutbacks in services that then affect children on a massive scale result. We believe the cause of this is the epidemic of unemployment that the United States has faced really since the inauguration of President Nixon in 1969 and the off again on again economic policies that improved in time for his reelection but cause even deeper problems after the election the last 7 year period has been a time of constant crisis in the local level.

I want to take this opportunity to read just a few figures into the record and these figures come from the report of the Senate Budget Committee which was just made available yesterday.

In the area of income security, the committee finds that since 1966, in the decade between 1966 and 1976 there has been an increase of more than $100 billion in costs for income security purposes. Now, it's broken down this way. The largest part of it is for payments to retired—social security and other retirement programs but remaining after that $62 billion is subtracted and the increase of $21 billion in increase in 10 years for welfare type benefits, food stamps, AFDC, and related activities and $17 billion increase in unemployment insurance in 10 years. If this type of effort were made to produce jobs the things that the Federal Government could do, I think are fairly obvious. To look at these figures and realize what they show in terms of lost initiatives in education and health care and in all sorts of things that remain to be accomplished as part of the agenda of any decent Federal Government, this diversion of revenue is relatively unproductive in terms of helping people to finally beat the cycle that puts them into this position.

We don't want to be taken as being against these payments. They have to be made and people have needs that have to be met in periods of unemployment but the fact is that these enormous outlays of expenditures have to be made because of a failure to solve one basic problem and that is, do we have enough jobs at decent wages so people don't have to rely on the Government for basic subsistence levels. I want to thank you for the opportunity to appear in front of this committee. It seems like whenever we have a problem in the areas of jobs and employment we end up telling it to you and we want to thank you for that. We hope you can move this bill out as fast as possible and our support is guaranteed. I've included with the statement a resolution passed by the AFT convention in July of this last year urging full support of H.R. 50.

I'll be happy to take any questions you have. Thank you.

Mr. DANIELS. The resolution to which you refer, is that resolution No. 11?

Mr. HUMPHREY. Yes.

Mr. DANIELS. I will ask unanimous consent to make sure that is incorporated in the record. Any objection? Hearing none, it will be so included.

[Document referred to follows:]

RESOLUTION NO. 11

(Submitted by: United Teachers of Baltimore City, Local No. 340)

EQUAL OPPORTUNITY AND FULL EMPLOYMENT ACT OF 1975 (S. 50/H.R. 50)

Whereas, adult unemployment is conservatively estimated at 8%, and

Whereas, teenage unemployment is conservatively estimated at 21%, and

Whereas, minority youth unemployment is conservatively estimated at 40%, and

Whereas, we, as teachers, are to educate our students in order that they may become productive adults and members of society, therefore, be it

Resolved, That the A.F.T. endorses and gives full support to S. 50 and H.R. 50, guaranteeing to all Americans, able and willing to work, the availability of equal opportunities for useful and rewarding employment, and be it further

Resolved, That the A.F.T. through its Legislative Committee inform all members of Congress and the President of the United States, that we want this bill passed in full, and be it further

Resolved, That we inform Congress that this bill must be fully funded.

Mr. DANIELS. Well, Mr. Humphrey, on behalf of the committee I want to thank you for the presentation of your testimony. I'm pleased to hear that the American Federation of Teachers, AFL-CIO, fully endorses H.R. 50.

The Chair agrees with the view expressed here today that it is an awful waste of funds which could be utilized for many useful programs to not only provide gainful employment to our unemployed and underemployed but also to increase their dignity and prestige.

I recognize the gentleman from California, Mr. Hawkins, for any questions.

Mr. HAWKINS. Just one, Mr. Chairman. I've read the statement and I think it's a very excellent one. The only question I would suggest at this time would be as to the effects on education that have been outlined in this statement which I thought were very well documented. Do you consider these effects of such a nature that they will be permanent and that actually the major effects may not really be known for several generations to come? We may have a recession, a recovery, another recession, another recovery and so forth, but the effects as you've outlined them are things that are permanent and there is no recovery from them. If the child doesn't get an education today, perhaps that child will never get that education and will forever have a problem. Do you consider that to be a true statement on the part of the thrust of the statement as it has been made by Mr. Shanker?

Mr. HUMPHREY. Yes, Mr. Hawkins. The final result of this situation that has occurred, well, for example, New York City and we represent most of the larger cities and this is about to occur in some others and there is a possibility of such circumstances in Chicago and other places and the effects of that are that in many areas of city government one can so-call increase productivity by putting more work upon the existing people who work there, but in education as you increase the class size, you decrease the amount of time that the teacher can spend with each individual student and you've taken something away on an almost permanent basis. The process of education seems to go on. There is a teacher in the classroom and children in there but all the functions that are best performed with a decent level of class size and with the special services provided that we have come to anticipate and expect over the years, when those are gone, the child who had been helped by them in the past is now in the process of sitting there through an experience that may not be terribly meaningful and the result of that is a permanent loss in the education of that child and it's something you can recapture only with the most massive expenditures later on. The increase in the amount of attention and resources that you have to bring to that child at some point in the future dwarf what you could have done by getting it earlier. A compensatory reading program for a student who gets through high school without learning to read and then has ambitions for further education is far more expensive and probably less successful than it is when the student is still in elementary school.

Mr. HAWKINS. So we are really building into the system the need in the future for many compensatory programs to overcome what is not now being done and, therefore, it would certainly be much more economical to do them now than to do them at some future time.

Mr. HUMPHREY. It makes, as far as we're concerned, no sense in terms of using the scarce dollars that are available to put these problems off. The ultimate result may be a person who is unable to earn a living that can support that person's family. It might be some sort of really terribly expensive form of rehabilitation. There is also the possibility of jail or other things that happen in greater proportion to people without education than they do to people with education. All these things are the result of the kind of unemployment and retrenchment in services we now have.

Mr. HAWKINS. Thank you very much.

Mr. DANIELS. Again, thank you.

Our next and final witness for the day is Mr. John Callahan, Legislative Director, International Union of Electrical, Radio and Machine Workers, AFL-CIO.

Mr. CALLAHAN. Mr. Chairman, I want you to know I am also going to put my statement in the record, with your permission.

Mr. DANIELS. I'll ask unanimous consent that the statement of John H. Callahan be incorporated in the record at this point.

[Document referred to follows:]

PREPARED STATEMENT OF JOHN CALLAHAN, LEGISLATIVE DIRECTOR, INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS, AFL-CIO

Chairman Daniels and other Subcommittee Members, my name is John H. Callahan. I am legislative director for the International Union of Electrical, Radio and Machine Workers (known for short as IUE), an AFL-CIO affiliated union.

This union now has a per capita dues-paying membership of about 235,000 in the United States (plus some thousands more in Canada); we had in the neighborhood of 315,000 in the U.S. in 1968-69. What happened to well over 80,000 IUE members over the intervening years also has happened to many tens of thousands of other workers in our industry. It happened to millions in the U.S. economy as a whole. They lost their jobs.

Seven miliion people jobless, by official undercount, today!

When people lose their jobs and they can't get other jobs, or can't get other jobs paying as well, they suffer diminished standards of living. They often are forced to become tax-eaters, where they had been tax-payers.

In some cases, the human suffering is very great indeed. People must do without adequate food, medical care, sometimes they lose the homes they'd been scrimping and paying for for years, and they lose other material needs. I do not want to mention the luxuries, the nicer things that aren't so basic, that they worked for but now may lose right away.

Their children sometimes have to forego special lessons they previously had. Perhaps they have their educational plans disrupted, when forced to go out to earn a buck, at a time when those kids should be at some college or technical or other advanced school.

The scramble to hold on to or find scarce jobs is a divisive, hate- and fear-creating factor in our society. It makes harder the solution of all problems. I do not speak now about the psychological impact of joblessness—the loss of status and of pride, the corrosion of one's self-esteem and self-respect, the traumatic impact on family relationships. Who can measure these? Those who've experienced what I'm talking about, at some time in their lives, know without my saying more. I hope the ones here who haven't experienced it, never have to.

That's with respect to people such as those I represent here today. People who normally work for a living. Who normally produce and pay taxes. Who are or were accustomed to paying their own way and don't want to be dependent on handouts.

There are others—hundreds of thousands of others—youngsters fresh out of school, older people who have lived in depressed pockets of the nation or have been victims of discrimination, widows who didn't work for pay while husbands were alive and can't get jobs now, persons who haven't the educational background, etc. who physically could work but have even less chance to get jobs because the economy has been shot. All those who perhaps never had jobs. What must their mental and psychological outlook be?

The people of this country have many unmet needs for goods and services. For themselves as individuals and families, for their communities, and for the improvement of the areas and resources and services which belong to us all.

It is a harsh and tragic fact that, along with the great needs which exist are great unused resources of know-how and productive equipment, of materials, and of involuntarily idled or underutilized people.

It is a harsh and tragic fact that despite the Congress' Commitment, in the 1946 Employment Act, that this country and its government will see to it that people who want to work will have work, the U.S. Government hasn't geared itself sufficiently to prevent involuntary unemployment—prolonged, mass, corrosive, wasteful, destructive idleness.

Indeed, the current Administration calmly contemplates the continued involuntary unemployment of millions of Americans for years to come. It pursues policies—giving higher priority to achieving other objectives—which accept such unemployment rates and totals and the individual suffering, waste, crime and loss of federal revenues that that entails.

It is harsh and tragic that we have to be here, asking the Congress to pass HR 50 and S 50, to mandate government action to bring the unemployment rate down to a 3% maximum (as we undercount the joblessness) within three years. Government should have been moving Heaven and Earth long ago, and continuously if need be, to do this, without being asked!

It is true that the 1946 Employment Act did not mandate a specific percentage rate ceiling on unemployment; nor provide for specific machinery to plan and coordinate action by the President, Congress, Federal Reserve Board, state and local governments and groups in the economy such as unions and management; nor declare it to be an adult's right to have a job at fair pay; nor specifically accept government responsibility to be employer of last resort so as to assure that people who want to work will have work. This bill would do so, as we read it.

Therefore, in line with a unanimous action by our Union's Executive Board during its March 22-26 session, and with countless resolutions by our Union's conventions over the years, I ask you to pass this bill very soon, and fund it adequately. We need it!

STATEMENT OF JOHN CALLAHAN, LEGISLATIVE DIRECTOR, INTERNATIONAL UNION OF ELECTRICAL, RADIO AND MACHINE WORKERS, AFL-CIO

Mr. Callahan. I just want to make a few comments, and they will be shorter than anyone who has been up here today. However, I want you to know I feel very good in waiting so long to be in such distinguished company, especially you who I have said before when all our union knows you, and we have one of the better unions, that you are the father of the OSHA safety bill and it's a pleasure to be here before you.

Mr. Daniels. Is that good?

Mr. Callahan. That is good because it's something that you had a hard job pushing through and we know what kind of work you put into it and appreciate it.

Mr. Daniels. Thank you for your kind comments.

Mr. Callahan. I also want to say I am pleased to be in the company of the distinguished Congressman Hawkins and I meet him in the hallways and it seems like I'm following him around. I remember the press conference on this bill at the Capitol and I watched some of the loaded questions by the press who tried to shoot some of these provisions down in the bill and Senator Humphrey and Congressman Hawkins, you did an outstanding job; a marvelous job at the 2 days on the Senate side and I followed you down to the banquet and then going to hear Andy Biemiller testify. This is the bill we are so enthusiastic about and we support wholeheartedly.

I agree with the statements made by Congressman Beard from Rhode Island about the employment situation there. We have quite a few members in Rhode Island. Also, Mr. Chairman, your State is in pretty bad shape from our union's point of view and I'm sure from other unions'.

Just to give you a quick rundown of a couple of places we know of. We had some people in here not too long ago from Otis Elevator in Harrison, N.J. and the plant is just going to be a skeleton because the construction business, the elevator business isn't very good and as you now know we have had whole plants shutdown in New Jersey and not just the layoff of a hundred people but shutdown of a plant where the plant is no longer used. RCA in Camden where we used to have 11,000 we've got maybe a couple hundred now and you know what Singer in Elizabeth and G.E. in Newark have moved plants, and I don't want to be disrespectful, down to Byrd country, down in Virginia to Winchester and the people really needed the jobs in Newark. They moved the plant, closed down the plant in Newark and moved it to Winchester, Va. and New Jersey has been really hard hit as has Rhode Island.

In some parts of New Jersey you have a higher percentage of unemployment than 14 percent.

Mr. DANIELS. The average rate of unemployment in New Jersey is in excess of 13 percent and in Hudson County, my congressional district, it amounts to 16 and 17 percent. This morning I had breakfast with the members of the trades council and they are lamenting an unusually high rate of unemployment in the construction trades amounting to about 35 percent.

Mr. CALLAHAN. I just want to say we are very much behind your bill and we just admire this man for his perseverance because he has really carried the ball for a couple years and I would say almost alone and now it is gaining momentum and I'm so happy to see everyone behind it in the labor movement and that's going to be a great thing for us and I hope this bill goes through and the promise that Speaker Albert gave at that press conference and I hope it holds true, he did say the bill would be out of Congress by May 15.

Mr. DANIELS. Thank you, Mr. Callahan.

Mr. HAWKINS. I thank the gentleman for his very generous remarks. I wish you would make that statement in my district, Mr. Callahan.

Mr. DANIELS. This concludes today's hearings. I wish to announce the next meeting of the subcommittee will take place on Thursday, April 8 in room 2261 at 9 a.m. at which time Mr. Charles Partee of the Federal Reserve Board of Governors will be the witness and Dr. Alice Rivlin, Director of the Congressional Budget Office and Professor Robert E. Hall, economist of MIT.

[Whereupon, the hearing concluded at 2:10 p.m. to reconvene at 9 a.m., Thursday, April 8, 1976.]

FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

THURSDAY, APRIL 8, 1976

House of Representatives,
Subcommittee on Manpower, Compensation, and Health
and Safety of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:10 a.m., in room 2261, Rayburn House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Members present: Representatives Daniels, Hawkins, Meeds, Gaydos, and Sarasin.

Staff present: Daniel Krivit, counsel; Saralee Schwartz, research assistant; Nathaniel Semple, minority legislative associate.

Mr. Daniels. The Subcommittee on Manpower, Compensation, and Health and Safety will come to order.

This morning we will continue our hearing on H.R. 50, the Full Employment and Balanced Growth Act of 1976.

Our first witness is Governor Charles Partee, of the Federal Reserve Board.

Welcome, Mr. Partee.

STATEMENT OF J. CHARLES PARTEE, MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE BOARD

Mr. Partee. Thank you, Mr. Chairman.

I appreciate the opportunity to present the views of the Federal Reserve Board on H.R. 50, the "Full Employment and Balanced Growth Act of 1976." This bill would amend the Employment Act of 1946, which requires the Federal Government to utilize all of its resources in order "to promote maximum employment, production and purchasing power." The Federal Reserve Board fully recognizes its responsibility under the 1946 act and has reported regularly to Congress on its efforts to further the objectives of the law. The central question facing Congress as it considers H.R. 50 is whether or not the proposed amendments will help advance the goals of the original act. I am sorry to say that we do not believe they will. The bill is both too rigid and too inflationary and, on balance, would likely prove to be inconsistent with the long-term economic well-being of the Nation.

Unemployment has been a very serious problem recently in the United States, as in many other countries. But this condition is mainly a product of the recession, which in turn was caused by the excesses and imbalances that had developed earlier in the economy. With economic recovery, good progress is being made in restoring jobs, and the unemployment rate has dropped 1½ percentage points over the past year.

Substantial further progress is necessary in creating new job opportunities, thereby reducing unemployment and providing for the absorption of a steadily growing labor force. This must be a primary objective of governmental economic policy. It is also of crucial importance, however, that we avoid recreating the conditions that led to the past recession, and could do so again. This means that continued attention must be directed to questions of economic structure and balance, including avoidance of the extremely injurious effects of rapid inflation.

We at the Board are gravely concerned that the net effect of H.R. 50 would be to add substantially to the inflationary bias already evident in the performance of the nation's economy, without generating a lasting increase in productive employment opportunities. Surely, the events of recent years have demonstrated that rapid inflation can undermine prosperity and exacerbate unemployment. The inflation of 1973 and 1974, with its adverse effects on real incomes, attitudes and the quality of economic decision-making, was a major force contributing to the subsequent deep economic recession. It should be clear from this experience that such conditions exact their toll in terms of economic inequity and social discontent. The American people have become painfully aware of the costs of inflation and of the need to control it.

It is of the utmost importance, we believe, that the containment of inflation be recognized explicitly as an important national priority inseparable from the goals of maximum employment and production. Indeed, a principal flaw in the 1946 act is its failure to identify clearly price stability as a long-run economic goal. H.R. 50 shares and extends this short-coming. In the Board's judgment, the antiinflation provisions of the bill are too weak and too vague to be satisfactory. Nowhere are there workable safeguards against inflation. Instead, the bill has many provisions that would contribute further to conditions and practices that would likely result in an intensification of upward price pressures.

Certainly one inflationary feature is the bill's objective of 3 percent adult unemployment to be reached, and sustained, within 4 years following enactment. This is a most arbitrary target. Historically, a 3 percent adult unemployment rate is very low. Over the past 30 years, the jobless rate for those 18 and over has been in the neighborhood of 3 percent only during 1952–53 and 1968–69, years in which the number of men in the armed forces was over 3½ million—half again as high as the present level. Moreover, both of these periods of heightened economic activity were characterized by demand-pull inflation and were followed eventually by major recessions. Thus, our postwar experience suggests that achievement of 3 percent unemployment typically is accompanied by substantial inflation and followed by economic decline, rather than by sustained full employment.

In addition, the setting of a rigid unemployment goal ignores the dynamic character of the American labor force. The jobless rate of a decade or so ago does not have the same meaning as the current rate, principally because of the shifting composition of the labor force and the more liberal nature of our Federal income-support programs. Today's labor force has relatively more new entrants and reentrants —chiefly the young, and married women—than it did then. These groups typically have higher rates of joblessness as they search—often intermittently and through trial and error—for a satisfactory job. It is reasonable to think that this has had an upward bias on the official jobless rate.

Indeed, the fact that the bill sets forth an unemployment target while making no mention of a comparable specific objective with regard to inflation is illustrative of its uneven treatment of these two economic problems. I would not urge that any fixed target for short-run price behavior be set; the meaning of an inflation rate, in its own way, can be as changeable as the meaning of a jobless rate. My purpose simply is to point out the bias of H.R. 50 in favor of one important national goal at the expense of another.

Some of the countercyclical and structural programs of H.R. 50 are likely to introduce important new elements of inflationary bias into our economic system. A significant problem of many past stabilization programs has been timing. Although the bill calls for the establishment of triggers and allocation formulas, I believe it still unlikely that we would avoid the pitfall of applying the aid too late in an economic downturn and continuing it too far into a recovery, when the effect on price pressures can be most pronounced. Experience has shown that such defects in timing have been particularly marked in programs of accelerated public works—one of the bill's recommended options. The inflationary implications of some of the other suggested programs—including those to stabilize State and local government budgets over the cycle and to extend unemployment insurance—also require careful evaluation.

The major inflationary thrust from the countercyclical programs, however, would come from the specific provisions of this bill that make the Federal Government the employer of last resort. While worthy in principle, the program as specified in H.R. 50 has a critical flaw. It requires the payment of prevailing wages, defined where applicable as the highest of the following: the Federal minimum wage, the State or local minimum wage, the prevailing wage in State or local government, or the prevailing wage in construction as specified by the Davis-Bacon Act.

This program—and these wages—would have profound inflationary consequences for several reasons. First, the program would result in substantial cost-push pressures. Private labor markets would be tightened, and this would cause private employers to bid up wage rates in order to obtain and retain workers. Also, by making public jobs available at attractive wages as a matter of right, the program would encourage workers now employed in the private sector to press for even larger wage gains, or to transfer to governmental jobs. As an example, any construction project under this bill would pay the going union rate; but since a large proportion of building in the United States is nonunion, this wage would be higher than many construction workers now receive and would provide an alternative preferable to their existing jobs.

Second, the employer of last resort program, as specified, would very likely come to generate significant demand-pull pressures on prices. Given our demonstrated national reluctance to raise taxes sufficiently to cover increases in Government spending, the financing of the program would tend to add to the Federal deficit—very substantially so, at some points in time. This year, for example, the Federal Government will spend close to $3 billion to support some 320,000 public service employment jobs in State and local government. The program proposed by H.R. 50 has the potential of being many times larger than this. Its attractive wage provisions would draw not only from the unemployed but also from those working part-time or at less desirable jobs, and from those not presently in the labor force, including retired persons, housewives and students. The upper bound of potential participation cannot be estimated with any degree of accuracy. But it seems quite possible that several million jobs might come to be needed to employ all of those seeking these positions at the relatively attractive rates of pay that would be offered. Such a program might therefore involve $30 billion or more in outlays at current average pay scales. I might note also that we have learned from the existing public service employment programs that cost offsets in terms of reduced transfer payments under other programs may not be as large as is often thought. Only about one-fourth of the public service enrollees in 1975 had been receiving unemployment insurance or public assistance prior to participation in the program.

Far and away the most significant defect of the bill as far as inflation is concerned, however, results from the limitations it places on the exercise of monetary and fiscal policy. If I interpret H.R. 50 correctly, such policies are to be directed solely to the achievement of the 3 percent unemployment goal until this target is reached. Only when that rate is below 3 percent can macroeconomic tools be directed in any degree to the problems of inflation and economic instability. Instead, these fundamental techniques of demand management—used throughout the world in governmental efforts to combat inflation as well as unemployment—are to be supplanted in the bill by a series of specific program initiatives. The list of these substitute measures includes the following: a comprehensive information system to monitor inflationary trends; programs to encourage greater supplies of goods, services, and factors of production; export licensing; establishment of stockpile reserves of food and critical materials; encouragement to labor and management to raise productivity through voluntary action; and proposals to increase competition.

Whatever the individual merits of these programs—and some are worthy of careful consideration—one fact is abundantly clear. They do not constitute an effective policy of inflation control. We believe that it would be a most serious mistake to discard the use of monetary and fiscal policy without first finding some effective alternative means of constraining inflation on an enduring basis.

Moreover, the bill's adoption of a trigger point with regard to economic goals simply does not provide a workable basis for employing accumulated knowledge about the behavior of the economy. It would not be practicable, in my view, to focus macroeconomic policies exclusively toward a full employment goal and then, at a given point, abruptly shift attention to the containment of inflation. That is analogous to approaching a stop-light at top speed, and then applying the brakes with equal vigor: the momentum would be sure to carry one into the intersection, or the deceleration to send one through the car's windshield, or more probably both. There needs to be the latitude to modulate and balance policy objectives to changing economic circumstances if we are to have any hope of achieving a lasting economic prosperity.

The changes required by the bill would go considerably beyond narrowing the options for modulating macropolicy objectives in accord with perceived needs of the economy. They would also alter dramatically the features of the existing process for review and oversight of the monetary policy function. In this regard, I would like to direct my comments to two specific provisions. First, the President is required to recommend a particular plan for monetary policy and to submit it annually to the Congress along with his numerical goals for employment, production, and purchasing power. Second, within 15 days of the President's report, the Federal Reserve Board is required to submit its intended policies for the coming year to the Congress, indicating the extent to which its plans support the goals of H.R. 50 and providing justification for any variation from the President's recommendations.

The Federal Reserve Board strongly objects to these proposed new procedures on two grounds: (1) they would alter the traditional relationship between the Congress, the Federal Reserve and the executive branch in a way that could well prove detrimental to the economic wellbeing of the nation, and (2) the procedures specified would seriously impair the current operational flexibility needed in the formulation and conduct of monetary policy.

The Federal Reserve Act was carefully drawn to specify a relationship between the Congress and the Federal Reserve System that would serve to insulate the monetary authority from short-run political pressures. This feature of the act stemmed from a well founded concern that excessive Government spending could be aided and abetted if the executive were granted the authority to control a nation's money supply. It is a fact of economic history that governments everywhere have come under great pressure to engage in massive deficit spending, at one time or another, even though this patently jeopardized the longer-run health of the economy. History also is replete with the inflationary consequences that have followed when governments have given in to such temptations, and have then simply run the printing presses in order to supply the money needed to finance their deficits.

The need to turn to private financial markets in order to finance deficit public spending performs an important function. The process of financing shifts purchasing power from private savers to the government, thus neutralizing much of the potential inflationary effect of deficit financing, while the necessity of finding willing investors imposes a market discipline on the scale of such deficits. But even in the United States, where this discipline has largely prevailed, the Federal budget has been in deficit every year but one since 1960. There is nothing in this record that suggests that we can relent in the battle to avoid excessive deficit financing. But instead, H.R. 50 proposes to weaken one key safeguard against inflationary public finance by introducing the executive branch explicitly and publicly into the making of monetary policy. And were the Congress to mandate these new procedures, it also would significantly dilute its preeminent role in the oversight of the monetary policy process.

Moreover, the proposed procedures for the planning and evaluation of monetary policy are, for operational reasons, inferior to those now in place. Under House Concurrent Resolution 133, the Federal Reserve Board presently reports quarterly on economic and financial developments, and specifies its current expectations for a variety of monetary aggregates to the appropriate oversight committees of the Congress. The great advantage of this reporting procedure is that it permits the Federal Reserve the flexibility necessary to adapt monetary policy to changing economic conditions. The procedures proposed in H.R. 50 would sharply curtail such flexibility.

There are two major changes in the existing process required by the bill: (1) policy planning is moved from a quarterly to what would effectively be a 12- to 15-month reference period, and (2) there would appear to be an unalterable commitment to longer-term plans for monetary policy in support of specified numerical national economic goals. On the basis of experience, the Board is convinced that these changes would make the proposed planning and evaluation process too rigid to be workable. In the first place, the ability of economists to forecast economic events for a year or more into the future with any high degree of reliability simply does not exist. Two rather notable recent illustrations of forecasting imprecision come quickly to mind: the extraordinarily high rates of inflation that developed in 1973 and 1974 that virtually no one foresaw, and the severity of the 1974–75 recession, which was also quite unexpected. In either case, it would have been a serious error to adhere to outdated plans based upon economic forecasts that proved to be wide of the mark.

In addition, the current state of knowledge about the relationship between movements in the monetary aggregates and real economic activity is not nearly so precise as the comments of some economists would have you believe. In recent quarters, for example, there appears to have been a dramatic reduction in the amount of money needed to finance the rise in GNP. Under these circumstances, holding to a course of monetary expansion that might have been suggested by historical money/GNP relationships could have been quite damaging. Speculative activities would have been encouraged, thus sowing the seeds for future economic instability, and the monetary base might well have been laid for a renewal of intense inflationary pressures.

Technical and financial innovations, accompanied by regulatory changes, undoubtedly have accounted in part for the slower growth in the narrowly defined money stock. For example, the spread of overdraft checking account credit privileges, increased use of credit cards to facilitate transactions, and the introduction of savings accounts at commercial banks for business firms all have tended to encourage greater economizing in the use of currency and checking account balances. These effects could not have been estimated with any accuracy in advance, however, and in any event, I do not think that they provide a complete explanation. The fact is that there is a potential for short-run volatility in monetary relationships that can make economic forecasts based on monetary inputs very treacherous indeed.

These uncertainties about monetary and economic relationships—uncertainties that are particularly marked at present—will require vigilance and flexibility by the Federal Reserve in the months ahead, and serve to point out the need for flexibility as a characteristic of the monetary policy process. Ours is an extraordinarily complex and dynamic economy; its linkages and responses are still imperfectly understood and probably always will be. Thus, in order to accomplish the objectives of economic stabilization, the formulation and conduct of monetary policy need to retain their flexibility to adapt to unforeseen developments in our economic and financial system. For these reasons we believe the provisions of H.R. 50 with respect to the monetary policy planning process would serve to reduce the contribution the Federal Reserve can make in helping to achieve our national economic goals.

Let me turn now to what this bill has to offer by way of improving the tradeoff between unemployment and inflation.

We have all painfully learned that the unemployment-inflation trade-off—which is generally thought to be shaped by our endowment of human and material resources, our economic institutions and processes, and our social practices and aspirations—has grown distinctly more unfavorable in recent years. A simple but useful illustration of this deterioration is the so-called discomfort index, which adds together the unemployment rate and the rate of increase in consumer prices. Last year, that index was 15.6, while a decade ago it was 6.4 and two decades ago 4.8.

High unemployment side by side with high rates of inflation presents the most difficult problem facing economic policymakers, not only in the United States but throughout the world. The sources of this problem are far from fully understood, but an important part appears to be structural in nature and, therefore, relatively immune to monetary and fiscal policy. A look at the composition of the unemployment figures illustrates some of the structural impediments in labor markets. Groups experiencing the greatest barriers—discrimination, marginal skills, location in depressed areas—have jobless rates well above the national average, even when the economy is not in a recession. For example, in 1973, when the national average unemployment rate was 4.9 percent, black joblessness was 8.9 percent, while 14.5 percent of all teenagers in the labor force were unemployed.

The bill properly recognizes the importance of structural problems and suggests a variety of programs to alleviate them. There are many such programs that might prove beneficial, but I believe that two broad areas deserve special emphasis. First are programs that would help increase competition in product and factor markets. There is need to reassess the effectiveness of our antitrust legislation—with regard to both business and labor practices—and the anti-competitive effects of Federal regulation of all kinds. We need also to reexamine the costs and benefits of such federally mandated programs as the Davis-Bacon Act, the minimum wage for teenagers and extended unemployment insurance. Second are programs that would serve to increase over time the employability of the jobless. We need better and more imaginative training programs and an improved labor market information system that would match job vacancies with available people, perhaps on a national basis.

Other programs are worthy of consideration. We should seek out ways to encourage more investment in productive plant and equipment, through stronger incentives and perhaps some revisions in the tax laws. We should stress programs to improve efficiency in both the private and public sectors. In this regard, the Board would endorse the principle of zero-base budgeting, which appears to be contemplated by the feature of H.R. 50 requiring an annual review of one-fifth—by dollar value—of all Federal Government programs.

A new emphasis on structural programs such as these, together with prudent monetary and fiscal policies, will provide our best hope for achieving the goals of the Employment Act of 1946. But the Board believes that H.R. 50, while reasserting these goals, would in the end be counterproductive in the effort to achieve them. The bill would release a powerful combination of demand-pull and cost-push pressures on prices. As has been demonstrated by the experience of many other countries—and, to a degree, by our recent experience here at home—rapid inflation can breed economic instability and ultimately retard—not promote—the growth of productive jobs. If we are truly to commit ourselves to the broad goals of the 1956 act, we need programs and policies that achieve a greater balance among our economic objectives than is recognized in H.R. 50.

Thank you, Mr. Chairman.

Mr. DANIELS. Thank you, Mr. Partee.

Mr. Partee, in your criticism of H.R. 50, you set forth in the beginning of your statement that one of the great weaknesses is that it deals with the question of unemployment, to reduce it to the level of 3 percent in a short period of time, but it does nothing with inflation. What would you recommend to correct that deficiency?

Mr. PARTEE. There are two recommendations that I would make. The first is that we avoid numerical classification, and my problem is in the specified track record that is set forth arbitrarily in the bill in terms of time and in terms of the level of unemployment to be reached.

Mr. DANIELS. Don't you deem an unemployment rate of 7.5 percent which prevails at the present time and which has been considerably higher in the last 2 years an unconscionable rate of unemployment that must be dealt with?

Mr. PARTEE. It is a very high rate of unemployment, but the rate was close to 9 percent a year ago. These very high unemployment levels are a product of the recession. What we need to be concerned with is full employment over time—an average employment experience that is favorable over time. If one is too demanding in terms of making progress in reaching a particular number, we may introduce the economic instability that will bring a higher unemployment rate rather than a lower one. That has been the experience of a great many countries that tried to engage in full employment practices, such as Great Britain.

The second recommendation I would make, to get away from specific numbers, would be to introduce price stability and economic balance also as objectives of the functioning of the economic tools that the economy has to offer. That isn't done specifically in the Employment Act of 1946, although the term "maximum purchasing power" has been so construed in a broad sense by the Federal departments and agencies.

Mr. Daniels. What in your judgment is a fair and reasonable rate of unemployment in a full employment market?

Mr. Partee. Well, the difficulty with that question is that it depends on the circumstances. I think that we ought to work to get the job opportunities in the country as high as possible, but I think we have to do it in an orderly, balanced manner. If we push really hard, we are going to lose it. If we shoot too low, we are not going to have adequate improvement. If we could develop a good economic recovery, and I believe we are in the process now—it seems to me that over time one could expect the adult unemployment rate to continue to work downward to 4 percent or thereabouts on the basis of macropolicy.

In addition, if we could be successful in some of the structural programs that are proposed—the programs to increase competition, to reduce impediments to the movements of resources—perhaps that would help people to find jobs and to be trained for the jobs that they would find. We might then be able to go below 4 percent. But it would be conditional upon success in those structural programs.

I have been in Washington quite awhile as a staff man and I have seen efforts to work on structural unemployment in the early sixties. Those programs were very well intended and some of them were imaginative, but it is a very slow process. So it is only as I would see progress in reducing these frictional sources of unemployment that I would feel comfortable with trying to push to a lower unemployment rate. That is why I don't want to give you a particular number. It just depends on how well we do it as we lead up to it.

Mr. Daniels. If we are going to do a good job, don't you think we have to deal with numbers? We have to reach some reasonable figure and we cannot only deal with the economy of unemployment, but also the question of inflation. But if we don't have a goal, how are you going to properly obtain a successful program?

Mr. Partee. I think the better way to do it is to ask for an accounting on an annual basis to see how we are doing and to see how much can be done without specifying as a matter of law a particular longer term goal. I think an accounting of stewardship is a satisfactory way to go about it—to appear before committees such as yours and report on what has been happening.

Mr. Daniels. While you object to the question of numbers, is it not true that labor departments are dealing with the question of numbers unemployed?

Mr. **Partee**. That is a statistical matter of measuring what the unemployment rates are. It is a different thing.

Mr. **Daniels**. It would appear to me that those figures are important in their significance and they should have some relevance.

Mr. **Partee**. I hope I am not being misunderstood. I would not argue that one should avoid numbers in terms of reporting what is happening and what is possible. What I am saying is that the target objective that can be reached is a condition of the way the economy is operating and the success that is being experienced with programs, developing programs of the kind we have mentioned, and therefore I would rather have the reporting on an annual review basis, without setting forth in law a specific objective that has to be reached in a very mechanical arbitrary way.

Mr. **Daniels**. What provisions of H.R. 50 do you like?

Mr. **Partee**. A considerably larger effort in the structural area of dealing with jobs and dealing with people and dealing with the interfunctions of markets is quite desirable. We are inclined to favor the idea of reviewing quite thoroughly a fifth of the Federal budget every year to see if there are inefficiencies. I like the proposals for voluntary efforts to try to improve productivity, and perhaps have local productivity councils to make an improvement in the performance of the United States economy a national cause. I think that thrust of the bill is extremely desirable.

Mr. **Daniels**. Would you see any hope in the enactment of H.R. 50 by modifying those phases of it which you find disagreeable?

Mr. **Partee**. Mr. Chairman, I don't have enough detailed knowledge of the bill to be able to say whether it is better that the bill be modified or whether it would be better to start off with a fresh set of proposed amendments to the Employment Act of 1946. I must say I read again that Employment Act of 1946 a couple of days ago and it seemed to me very wordy and hard to get through; it certainly could be simplified and made more understandable. There is also no mention of price stability as a national goal—no specific attention in the Employment Act of 1946—and there is no recognition of the desirability of having structural programs or mandating structural programs in the 1946 act. These would be desirable additions. So, whether one does it by in effect going back to the Employment Act of 1946 and making more modest changes in that or by revising the present quite extensive bill, I am not prepared to say.

Mr. **Daniels**. Do you believe that an unemployment rate of 3 percent is achievable in the short period of 4 years?

Mr. **Partee**. I think it is a very ambitious goal. I am fearful that only under the very best of circumstances I can imagine could it be achieved. If the economy develops in a balanced way over the recovery and if we don't have any more major shocks to the economy—such as the Arab oil embargo of a couple of years ago and the subsequent quadrupling of oil prices—and if we begin to work on the structural programs and make real progress in improving the structure, we might reach that level in 4 years. But I am fearful also that an effort to do this that is blind to other developments that might be occurring could bring imbalances and real difficulties, so that by

4 years from now we might have induced another deep recession rather than enjoying 3 percent unemployment.

Mr. DANIELS. Mr. Sarasin.

Mr. SARASIN. Thank you, Mr. Chairman.

I want to thank you for your very comprehensive statement this morning and the manner in which you have criticized H.R. 50. I think it is open to criticism.

The comment you made regarding prevailing wages I think is extremely important. I wonder if you could expand on it with respect to the prevailing wages and Davis-Bacon wages being paid.

Mr. PARTEE. Mr. Congressman, it is a very understandable thing for people to say, "if I am going to have to work, I ought to get regular wages even if what I am going to work for is a special government program." But the difficulty with that in economic terms is that as soon as you pay the wages in these special programs that would be paid anywhere else in the economy, including the State and local government units or the Federal Government payrolls, you effectively reduce the desire of people to get out of that program and back to other jobs. So the tendency will be to tighten the private labor markets substantially and to create a permanent—not a temporary—program for government as the employer of last resort. That can be very costly.

In addition, there are other problems. For example, there are regional variations in rates of pay that are quite important. We looked at the average rates of pay for State and local employees in New York State and compared them with rates of pay for State and local employees in West Virginia, and found that the level in New York State is almost double that in West Virginia. If you are going to pay State and local wages in this temporary program in New York, what is to prevent the regular people in the regular jobs in low-paying States from going into the high wage structure of New York State?

This statement is true also of construction. The Davis-Bacon Act, as I understand it, requires that union wages be paid on any Government construction project. Normally, the prevailing wages in the Davis-Bacon Act are the union wages in the nearest city where there is a trades union. So you can go out in the countryside and find that such a job will pay the Washington or Baltimore union wage scale. But the fact is that a great deal of the construction work in the United States is nonunion. Almost all single-family housing is built by nonunion workers. The nonunion wages are significantly less than the downtown union wages scale for the big building work that goes on in the city.

So it appears to me that a construction worker who ordinarily would be building single-family houses out in the suburbs might well prefer to have an employer of last resort job that pays the Davis-Bacon scale—substantially more than he can ordinarily make. And the diversion of these workers from the suburbs will drive up wage rates there, increase the cost of housing still further and perhaps create actual shortages of labor in the building of single-family houses, which is what the public really wants rather than the public buildings that would be built under the Federal works project proposal.

There are lots of difficulties here, and I think a lot of them are caused by this insistence on prevailing wages. If it were a modest wage, if the person had a considerable incentive for moving back to private labor markets at the first opportunity, why, the inflationary effects of these programs would be far less severe.

Mr. SARASIN. Is there a way to structure that? Would you suggest that if something like this were to be adopted, the wages would be something less than 100 percent of the prevailing wage.

Mr. PARTEE. That might be helpful. I still have the difficulty with regional differences and the trade differences that I think would cause movements both geographically and from one activity to another. But it might be helpful to have a discount from the prevailing wage. And it might be helpful to recognize that what we are talking about is the Government as an employer of last resort, not an equal employer but one that provides a place that a person can go to get work if he can't find it elsewhere and that pays a modest wage to the person while he is engaged in that particular activity.

Mr. SARASIN. You mentioned the British experience, would you expand on the lesson we might learn from their experience.

Mr. PARTEE. As most of you are aware, the average inflation rate in Britain last year was very high—about 25 percent. That inflation resulted in part from the large wage increases won by the union groups essentially—for the working man in Britain. But the effect of the high inflation rate was to make people much more conservative as to what they were prepared to do in terms of committing themselves to the future, and in terms of buying goods. The saving rate rose substantially in Britain. Investment declined, and inventory investment fell off. The result of those developments, and their effect on people's attitudes, was to cause a deep recession in the country; in Britain, over a million people currently are unemployed. This is about a 5 percent unemployment rate, whereas the typical rate the British can look back to is 1½ to 2 percent. This is a country in which nearly 60 percent of the total flow of income, after-tax income, is controlled by the Government in the effort to provide full employment and fund their many social programs. But the end result has been poor employment conditions, rather than good employment conditions.

That is only one of a number of examples I can give. For instance, you may have noticed the press reports that in the South American country where the Government recently changed, the rate of inflation had been well over 500 percent per year. This is what happens when you create money simply by running the Government printing press.

Mr. DANIELS. Will you pardon me, sir? The full Education and Labor Committee is meeting at the present time and they need members there to constitute a quorum. So if you will excuse us for a few minutes.

Mr. MEEDS. Mr. Chairman, I am going to be at another meeting. Could I just ask one or two questions?

I am very sorry I wasn't here to hear your formal presentation, and I am sorry I haven't been able to read all of your prepared statement. But looking on page 3 at your prepared statement, about the middle of the page, I find the statement:

> Thus, our postwar experience suggests that achievement of 3 percent unemployment typically is accompanied by substantial inflation and followed by economic decline, rather than by sustained full employment.

I know we don't have time here to go into this in depth, but it strikes me as a bit of an oversimplification. It says to me there are a number of other factors which are involved in inflation in addition to high employment. The next witness I think is Alice Rivlin, who I think will be testifying, and she has presented her testimony with a chart.

Would you make that available to the Governor, please?

On page 12, she has a chart which charts the course since 1950 of unemployment and inflation, and while I think until about 1964 there appeared to be a relatively direct relationship between inflation and unemployment, that pattern has been much more erratic since 1964. There are a number of factors with regard to both unemployment and inflation other than the relationship that one bears to the other, such as the high cost of oil.

Mr. PARTEE. Yes.

I wouldn't disagree with you one bit, Mr. Congressman. You can see that there was a peak back in 1950 and 1951 which was due to the Korean War and the expectation of scarcities. The second peak in 1973 and 1974 was due in part to the oil embargo. But I would read this chart as indicating that there is an exaggerated contrary relationship between inflation and unemployment that has developed with the passage of time. That is, that the unemployment price inflation trade-off has tended to worsen.

You see, for example, when the unemployment rate rose in 1971 and 1972, the inflation rate dropped, but it didn't drop to a terribly low level. And when the unemployment rate dropped in 1973 and 1974, although there were several factors tending to exaggerate the rise in prices, it was still very much larger than we would have expected before.

Mr. MEEDS. The chart also points out that the postwar experience suggests that a level of 3 percent unemployment rate typically is accompanied by substantial inflation.

Let me direct your attention to the period of 1967 when just the reverse of what you say occurred. That is to say, there was a substantial drop in inflation and the unemployment rate remained relatively level. Is that not correct?

Mr. PARTEE. I was directing myself to the precise question of a 3 percent adult unemployment rate. You will notice that in 1966 and 1967, the unemployment rate is appreciably above 3 percent. It is closer to 4 percent.

Mr. MEEDS. In the postwar history of this country, it would be difficult to find, with the exception of 1952 and 1954, an example which would fit——

Mr. PARTEE. There is the period 1952 and 1953 when the rate was a trifle below 3 percent, and there is the period 1968 and 1969 when it was a trifle above 3 percent, and both of those were periods of very high levels of economic activity—partly war-induced—that were followed by deflation. It is a fact of the postwar experience.

Mr. **Meeds.** I thought you were going to agree with me, but you are not. It isn't the factor all the time. There are some other factors which come in.

Mr. **Partee.** A 3 percent unemployment level always is a factor in the inflation rate. My comment here was directed toward the 3 percent unemployment rate.

Mr. **Meeds.** We hadn't reached 3 percent unemployment at that period of time.

Mr. **Partee.** We did. I was taking what we assume to be the committee definition of adult unemployment that is, an unemployment rate for people 18 years and older, and it was a trifle below 3 percent in 1952 and 1953 and a trifle above in 1968 and 1969.

Mr. **Meeds.** Then, would you say to take an example, I am not saying that I prefer to do this, if we had wage and price controls, that 2 percent or 3 percent inflation factor and full employment, that your statement would be correct. Would it be accompanied by inflation?

Mr. **Partee.** Mr. Congressman, in my statement I avoided discussing wage and price controls. But I would say to you that, with controls, the economy might over a short period of time be able to have a high level of employment and a low rate of inflation. But the difference——

Mr. **Meeds.** We had that situation, did we not, in World War II and the Korean War when we did have wage and price controls. We had rapid acceleration in employment, very low unemployment, wage and price controls. So we had everything which is exactly the reverse of what you say in your statement.

Mr. **Partee.** Mr. Meeds, I believe you need to take into account an appropriate time frame of reference. We did in fact manage reasonable price stability during the war. We also managed reasonable price stability in late 1971 and 1972, with the wage and price controls then. But in each case—and I happen to have studied them carefully—distortions and pressures and economic inefficiencies built up; eventually the program broke down and there was an explosion of prices. So although for a while wage and price control may be effective—I am not saying it is an undesirable thing under certain economic conditions—it is a temporary kind of medicine to give. That is why I say that I think we have to have the conditions that will bring an enduring price stability rather than a temporary price stability that will be followed by an explosion of prices.

Mr. **Meeds.** Thank you very much.

Mr. **Hawkins.** I think we have a glaring misinterpertation of this chart.

Mr. **Meeds.** The fact is, it shows almost the reverse of what he is testifying.

Mr. **Daniels.** I will declare a short recess.

[A brief recess was taken.]

Mr. **Daniels.** The subcommittee will come to order.

Mr. Gaydos.

Mr. **Gaydos.** Mr. Partee, are you familiar with the Foreign Investment Equalization Act?

Mr. PARTEE. No, sir, I can't say that I am.

Mr. GAYDOS. Let me just hurriedly indicate to you we had an act which was suspended by the President in the last 2 or 3 years and which placed limitation on taking the American capital, sending it overseas to chase high interest rates and the consequence was a shortage of American capital.

Mr. PARTEE. Yes, sir. The interest equalization tax and voluntary foreign credit restraint was a part of it.

Mr. GAYDOS. As a board member of the Board of Governors, you would be familiar with it. Do you think it ought to be brought back again?

Mr. PARTEE. I don't believe so. There are times when I think that something like that might be given consideration. We had great difficulties with our balance of payments during the period in which it was in effect, and we also had at that time a tremendous drive to make investments abroad by business firms. But since then conditions have changed quite remarkably; you may have noticed in the paper this past week that businessmen's plans are now not to add at all to investments abroad. The attractiveness of investments in Britain or France and Italy—or in all the common market countries—has diminished to the point where there is not much incentive to put funds abroad for that purpose. The United States dollar is a strong currency in the world now, rather than a weak one. So I don't see that there is any necessity for it.

Let me make one other point. Like many other control programs, there is a sort of a limited life expectancy that results from the fact that the market develops ways around—ways to neutralize, if you will—the regulation. In this particular case, there was a restriction that we had administered on investing abroad the funds of home office banks and home office financial institutions of all kinds—insurance companies, endowments and so forth. The difficulty that developed as the years passed is that people with substantial amounts of money began to take their funds abroad personally where there couldn't be any restriction unless you were to have exchange control barriers around the United States. Rather than dealing with the home office institution which was restricted, the people themselves began——

Mr. GAYDOS. If you would yield at that point, under that act you know that it was illegal to do that under the terms of the act.

Mr. PARTEE. No, sir; I don't believe it was, for an individual to take his funds abroad and invest them.

Mr. GAYDOS. He could do it, but he had an obligation to come back and pay an equalization tax.

Getting away from the subject matter, I did ask you whether or not you could support it and you said no, you thought its usefulness was used up. Do you think the Federal Reserve System has gone out of style and we should replace it?

Mr. PARTEE. At 60, it is becoming an aged institution, but I think that the function has to——

Mr. GAYDOS. Let's get into the system we have here. Has it done a pretty good job as far as inflation up to date—you, the Board of Governors in the Federal Reserve System per se—what kind of job have you done?

Mr. **Partee.** Mr. Congressman, no one can take any comfort in the record of this country over the last decade. It has been terrible in terms of both unemployment and inflation. I don't happen to believe that the Federal Reserve was responsible for these evils. We were dealing with the very difficult situation of an unbalanced economy with a great deal of speculative activity and speculative sentiment in it, a large deficit that began with the Vietnam war, and finally the experience of all sorts of shortages, such as the fuel shortage.

Mr. **Gaydos.** Those are nice observations, but do you agree with me when I make the observations the Federal Reserve System as we have come to know it is a factor in our whole economic problem, albeit international, domestic or what have you? You have some responsibilities, don't you?

Mr. **Partee.** I don't think it is a factor in the economic problem. I think it is a factor in the economic process, certainly.

Mr. **Gaydos.** Whether we are talking about the 1946 act—what do you think the purpose of that act was or is today?

Mr. **Partee.** As the act clearly states, every effort that is consistent with essential considerations of national policy——

Mr. **Gaydos.** Is the Federal Reserve System part of that?

Mr. **Partee.** Of course. We consider ourselves to be subject to the Employment Act of 1946 and we always have. It certainly applies to the Federal Reserve and I would say that the Federal Reserve has not disregarded the objectives of that act. As long as I can remember, the Chairman of the Federal Reserve Board has testified before the Joint Economic Committee on the occasion of the Economic Report of the President in February, and again in July.

Mr. **Gaydos.** Do you as a person or as a policy setter or as a member in your official capacity in which you sit, do you favor wage and price controls at any time, in the past or even now?

Mr. **Partee.** There are circumstances under which I would—but not now. I don't think they are needed now.

Mr. **Gaydos.** Do you think when we did institute wage and price controls that they were effective at the time—that is, the original price and wage controls?

Mr. **Partee.** In 1971 and 1972, they were effective. But I happen to have been involved in that program, and I want to point out that as time went on, great deficiencies and defects developed. And it seems clear to me that inefficiencies were developing in the system.

Mr. **Gaydos.** You cited previously in some instances we had inflation along with unemployment, which is a new phenomena as far as economics are concerned. They felt it should have never happened in the past and it is unique. But we have other areas throughout the world where they are facing inflation and enjoying a reasonable percentage of employment. There are other examples where people are doing something in the free world. Let's exclude the others that don't have the same type of internal government we have.

Mr. **Partee.** Some countries are trying hard. I can't say that I can see any notable success, that is, where the country hasn't given up substantially on one or the other objective, except for Germany where inflation is rather low and the employment rate is fairly good. You have to look at the institutional arrangements in each economy separately to understand one as against the other. Germany is a very special case. First, they have a lot of imported labor, so there is some give in their employment rates since they can export that labor again when they no longer need it. Second, there is a different background of historical experience with inflation on the part of the German citizen as compared to that of the United States.

Mr. Gaydos. Are you saying that Germany runs their government differently than we do?

Mr. Partee. No, I don't think so. I referred on page 12 of my statement to a number of fundamentals that I think have a great deal to do with the employment-inflation trade-off and that do change like a glacier over time, and they have to do with first, the endowment of human and material resources which in the United States has been more favorable than most countries in the world; secondly, specific economic institutions and processes; and lastly, social practices and aspirations. I think these are the fundamentals that determine the kind of results you can have from managing an economy.

Mr. Gaydos. On page 3, you suggest that postwar experience suggests that a level of 3 percent unemployment typically is accompanied by substantial inflation and followed by economic decline rather than by sustained full employment.

Japan has 1½ percent unemployment. It is a little over 1 percent unemployment.

Mr. Partee. Mr. Congressman, you have to know quite a bit about a country in order to make sense of such statistics. Japan has a very high proportion of its people on the farm, for instance, which we don't. What happens in Japan is the people, as they are laid off—and there are lots of industries where they are laid off—the people disappear back into the farm and no longer show in the unemployment statistics.

Mr. Gaydos. Maybe we should be thinking about changing to that policy here.

Mr. Partee. That would be a pretty fundamental change, but could be considered, yes, sir.

Mr. Gaydos. Do you have any reservations or any qualms or any other feeling regarding our late colleague Mr. Patman and his request for a complete accounting of the Federal Reserve System? Do you have any problems with that exclusive position that the Federal Reserve System now holds?

Mr. Partee. I believe an audit by the General Accounting Office is what the Congressman was referring to. Our position has been that it isn't necessary. In the policy area we are audited by Congressional committees, principally the Banking Committees and the Joint Economic Committee; for our operations, we retain outside independent public accountants to give us a very complete review.

Mr. Gaydos. If I want to find out how much you spent in traveling last year, where would I go?

Mr. Partee. You would address an inquiry to the Secretary of the Federal Reserve Board and you would be told in the matter of a couple of days.

Mr. Daniels. Will the gentleman from Pennsylvania yield?

Mr. Partee, you state that the Federal Reserve is required to report, I believe it is semiannually to the Congress on the conduct of its monetary policy. Has the Federal Reserve Board given the committees of Congress the information which it has requested with regard to employment, production and inflation policies? It is my understanding that while requests have been made for such information, it has not been furnished, and I would like to know why.

Mr. Partee. Mr. Chairman, what we do is report on monetary policy to the Banking Committees. As the law is written, we are to report semiannually. But what actually happens is that the Banking Committees alternate, so that in one 3-month period we appear before the Senate and in the next we are before the House. We have indicated as required by the concurrent resolution our expectations as to the growth of the monetary aggregates, and we have reported on economic and financial developments and, in a broad sense, our expectations as to how they might develop into the future. We haven't honored the request of the Chairman of the House Banking Committee to given numerical projections of major aspects of the economy, such as employment and real GNP, and the reason we haven't done so is that we don't officially reach a consensus on such numbers in the policy formulation process.

There is a thrust, a movement in the economy, that is present in the minds of all members of the Federal Open Market Committee as they vote on policy. But we don't come to any agreement on the rate of economic growth that each member expects to be associated with developments in the period ahead. So we simply don't have the official information of the kind the Chairman has asked for.

Mr. Daniels. The Chair cannot understand why you and other witnesses that have appeared are so reluctant to deal with numbers. I don't understand it.

Mr. Partee. I suppose that my difficulty is that as an economist I am so aware of how imperfect our foresight can be. I suppose that no one wants to be put in a position where he can be shown to be wrong. I think that is part of it.

In addition, people don't want to be put in the position where they commit themselves to numbers which because of unexpected developments are not achievable. I think that is another factor in their reluctance to do this.

I have a third reason, anecdotal in nature. I have never seen a year in which the major automobile manufacturers predict publicly a substantial decline in sales, and yet I know that the automobile manufacturers at times expect that sales are going to be poor. I suspect that making predictions a matter of public record tends to reduce the quality of the estimates that are given.

Mr. Daniels. Mr. Partee, if we as politicians just merely discuss things in general, in order for us to make appropriate and proper decisions, we must have some specific information, and that is what we expect before this committee. So if you want to talk in generalities, I don't think we are going to be able to agree on anything.

I yield back.

Mr. Gaydos. Mr. Partee, am I accurate in this observation that although Congress generally can examine the questions and go through some partial audit, basically you are entirely economists in all your actions and the policies you set are yours and nobody can change them. If they change, you people change them. That is basically a correct statement, isn't it?

Mr. PARTEE. I would have two qualifications. One is I don't believe that the central bank, although independent, runs a policy so in opposition to the administration's policy that it just isn't workable. I think that such an approach to policy would break down in a matter of time.

Second, I would point out that the Congress has the authority and the right to instruct us. The Federal Reserve Act is a congressional act. The system is a creature of the Congress. What we are administering is a power that is given to the Congress by the Constitution. Therefore, the Congress has a power to instruct us to take particular actions and the congressional oversight committees do probe quite deeply and do suggest courses of action.

Over this last year, we have had two formal Senate reports on the hearings. In both cases, the reports supported the plans and the activities of the Federal Reserve. I don't believe that there has been a formal House report for either of its hearings. But we did in fact have the approval, if you will, of the Senate oversight committee on the two occasions.

Mr. GAYDOS. You are saying if Congress wants you to act differently, they better pass some legislation or they can——

Mr. PARTEE. They can pass legislation. They can change the act or instruct us.

Mr. GAYDOS. It is primarily the concern and the interest of the Federal Reserve System to basically fundamentally watch the money supply, credit and things like that?

Mr. PARTEE. That is right, in the interest of promoting good economic conditions.

Mr. GAYDOS. Are you saying—is that the secondary interest then? Our employment situation, would it be a dovetail-off or a side effect, whatever you want to call it? It is not your primary concern, our employment problem, is it?

Mr. PARTEE. I don't mean to be tricky in answering you, but balanced economic growth is our primary objective and we try to conduct monetary policy in the credit and money area in a way that promotes balanced economic growth. It is the economic growth that is the objective, rather than any growth in the money supply or any level of interest rates or anything like that.

Mr. GAYDOS. Then, the specific items of unemployment, jobs for Americans would be a secondary consideration or an accidental affectation resulting from your economic policy. Is that a fair statement?

Mr. PARTEE. I would not interpret it so. I would say that our belief is that sustainable, balanced economic growth will give us the most jobs in the country and will be the most productive way to serve the needs of the country. We also have to take inflation into account because we believe it is a source of instability in the performance of the economy.

Mr. GAYDOS. Am I correct in saying the Federal Reserve System has failed this country because of the unemployment situation being so high and so sustained an inflation? Is that your problem? Have you caused that by your policies and should *you change them?*

Mr. PARTEE. Mr. Congressman, I don't think that our policies have been inappropriate, but I do agree that the economic results in the economy have not been good in the last decade. I don't honestly know what to say in terms of how our policies could have provided a materially better outcome. By the way, we are talking here today in terms of a very recent recession—we had quite good employment levels prior to that recession. But I don't know how, looking at the broad pattern of development of the economy over the last decade, how we could have had macro-policies that would have substantially reduced unemployment without adding to inflation or would have reduced inflation without adding further to unemployment.

Mr. GAYDOS. Do you think that our bank failures and threatened failures are going to have some effect on unemployment?

Mr. PARTEE. I think that uncertainty and concern are always economic factors to be taken into account. In my view, the problems we have had with a relatively few banks were successfully kept from becoming universal and causing a financial crisis. I no longer believe that this risks seriously impeding recovery in the economy. A year or so ago I was more uncertain about that.

Mr. GAYDOS. Are you suggesting that we have nothing to worry about as far as banks failing or are we having any additional bank failures or experiencing any other difficulties on a broader scale than we have today? Is that what you are saying?

Mr. PARTEE. I think we have passed the high water mark.

Mr. GAYDOS. Would you, if you can, respond from looking at your observations on page 7 when you say "It would be a most serious mistake to discard the use of monetary and fiscal policy"—I assume that it is existing monetary policy—"without first finding some effective alternative means of constraining inflation on an enduring basis."

Do you think that if we continue on the path that we are now following that we will have no problem and will ultimately reach our goal and that is, I hope, inflation will be curbed and employment will be full? How many more years do we need of this existing policy to obtain that goal?

Mr. PARTEE. Mr. Congressman, I would never argue that we don't have problems. I would say to you as a professional economist that I feel better about the basis for sustainable economic recovery now than I have felt at any time in the last decade.

Mr. GAYDOS. What do you do with these people that are unemployed? Our present policies aren't working and you may raise some questions about whether it is wise to extend employment to these people if you don't particularly like as a matter of policy this employment as a last resort, although there are 13 million people in this country working in all sorts of government. What are you going to do with these people, the unemployed?

Mr. PARTEE. Mr. Congressman, I would point out that we are having a steady and substantial decline in the unemployment rate, and I would hope that we can look forward to a decline in the unemployment rate in the months and years to come and that people would be absorbed back into productive jobs in the economy. I think we have made good progress in that.

With regard to your other comment, I did not say that I was opposed to the employer of last resort feature. I said I was opposed to the inflationary pressures that it would bring, particularly given this aspect of competitive wages that would have to be paid. As far as extending unemployment insurance programs is concerned, I think it has been necessary over the period we have come through, although I have no doubt that this has added to inflationary pressure.

Mr. GAYDOS. I have serious question as to the position you take when providing a couple million jobs will cost about $30 billion.

Mr. PARTEE. I was thinking 3 million.

Mr. GAYDOS. What do you do?

Mr. PARTEE. Three million jobs at $10,000 a person is $30 billion.

Mr. GAYDOS. Some of the Presidential candidates don't quite agree with you, talking about $30 or $40 billion. They have prepared and they are statistically conditioned and suggested by economists to the extent that it wouldn't cost anything because those people start paying taxes. When you stop depleting your unemployment compensation bank, when you take a look at the overall picture, it is not a net expenditure of $30 billion. It is just not going to be a $30 billion outlay.

Mr. PARTEE. I have an objection to the principle in the sense of tightening labor markets and raising costs. But I also would say that it is a very large outlay you are talking about.

Mr. GAYDOS. I am talking about $30 billion.

Unless we get some solid recommendation, this committee wants to try something and we are going to try something through this bill. If we don't do anything, we have to live with existing policy with the Federal Reserve System.

Can I conclude then that you are saying that you admit that existing policies are not working fast enough?

Mr. PARTEE. They have not been working well.

Mr. GAYDOS. All right, let's start there. They are not working well and you have not at this time any new suggestions?

Mr. PARTEE. My recommendation to you is that we develop especially structural programs to help improve——

Mr. GAYDOS. How?

Mr. PARTEE. I have named quite a number at the end of my statement.

Mr. GAYDOS. If we are going to go over them, let me conclude in saying that I ask these questions from a personal curiosity on my part. I do appreciate your position, and I would hope that maybe in the future you can come back and we can have any afterthoughts you may have or some suggestions as to good solid policies we may consider to fill this void that we agree exists.

Mr. DANIELS. I recognize the gentleman from California, the distinguished author of this bill, Congressman Hawkins.

Mr. HAWKINS. Mr. Partee, I assume that when you made the statement that you made about the Employment Act of 1946, you had previously read the act.

Mr. PARTEE. Yes, sir.

Mr. **Hawkins**. You simply reviewed it because you came to testify?

Mr. **Partee**. I read it first as a student in college.

Mr. **Hawkins**. And you have followed that commitment as a member of the Federal Reserve Board?

Mr. **Partee**. I have only been a member for 3 months, but I have it uppermost in my mind.

Mr. **Hawkins**. It makes a commitment that employment opportunities shall be provided for all citizens able, willing, and seeking employment. You read that part of the act, right? Do you believe that that is one of the objectives, one of your national objectives?

Mr. **Partee**. Yes, I do.

Mr. **Hawkins**. We should provide opportunities for all citizens, it should not be a set percentage; is that true?

Mr. **Partee**. I would agree with that.

Mr. **Hawkins**. That percentage does not rely on whether it may or may not be inflationary?

Mr. **Partee**. Well, sir, it does say consistent with other programs and objectives of Government and it also says consistent with maximum employment, production and purchasing power.

Mr. **Hawkins**. What do you read in the phrase "maximum employment and production"?

Mr. **Partee**. I think it is a recognition that economic development is a process and that sustainability of economic expansion is an objective.

I read secondly into that phrase the concern that avoidance of a degree of inflation that would work to impair the sustainability of the expansion and ultimately to destroy jobs would be a legitimate aim of Government.

Mr. **Hawkins**. Aren't you stretching the act a little bit by reading inflation into it? Does the act deal with the problem of inflation per se?

Mr. **Partee**. Not per se.

Mr. **Hawkins**. Does it deal with it in any way?

Mr. **Partee**. Except that I believe there is the implication of the need for sustainable expansion in that phrase of the act, and I think sustainable expansion requires that we not have a debilitating inflation.

Mr. **Hawkins**. So, at least there is some implication, you think, that inflation is read into the act?

Mr. **Partee**. I think so.

Mr. **Hawkins**. Is the act specific with respect to maximum employment, however, and maximum production? Do these specific points in your problem outweigh what might be construed as an implication?

Mr. **Partee**. I repeat, I think you have to look at the whole package. We want sustainable expansion and I think we need to do the kind of things that will give us maximum sustainable expansion in the economy.

Mr. **Hawkins**. Do you think that the Federal Reserve Board has fostered that since 1969 in maximum employment?

Mr. **Partee**. Sir, given the problems that existed in the economy, I think the Federal Reserve did the best it could.

Mr. Hawkins. Has it fostered maximum employment production and purchasing power as mandated by the 1946 act?

Mr. Partee. Again, I don't happen to have the act before me. I believe those phrases begin with the word conditions, and then it goes on, and I think that the Federal Reserve Board has fostered conditions that it believes would give us in the long run maximum employment.

Mr. Hawkins. You are saying future expansion. I am asking you if——

Mr. Partee. In the short run?

Mr. Hawkins. From 1969 to 1975, we had two recessions and very excessive interest rates which were directly the result of the Federal Reserve Board, the tight money policy. Would you say these conditions fostered maximum production and employment?

Mr. Partee. Yes, sir. I think they have.

Mr. Hawkins. You think that 9 million unemployed persons, officially unemployed is maximum employment? Do you think that the 12-percent inflation rate is certainly something to be considered in terms of maximum purchasing power? Do you think that a production capacity which is operating at only about 70 percent of capacity is maximum production?

Mr. Partee. As I said before, no one can take any comfort in the economic record of the last decade. It has been bad. It has been bad in terms of both job opportunities and prices, and as I also said, you have to take into account that you are reading results now that are products of a recession. The recession wouldn't have been stopped. The recession was an outcome of the economic development in the years preceding the recession and could not have been stopped in the last year.

Mr. Hawkins. Will you explain the factors that caused the 1973 and 1974 recession?

Mr. Partee. Well, I think there are three main factors.

Mr. Hawkins. For which the Board of the Federal Reserve, the administration are totally innocent of?

Mr. Partee. I don't think they are innocent. I think that we ran too strong a budgetary expansion which began with the Vietnam war in 1965, but continued intermittently over most of this period, and served to create imbalances in the economy.

I think, secondly, that speculative enthusiasm developed that gave us instability in the economy. First in company conglomerates, secondly in the stock market, thirdly in cattle raising out on the feed lots, fourth in real estate—where there was excessive expansion and excessive spending—and finally in the rapid inventory accumulation of 1973 and 1974. A recession became inevitable.

The third factor I would mention is that the rates of inflation that prevailed in 1973 and 1974 so upset plans and budgets of average families that they pulled in their horns and they tried to increase their savings; the result was a decline in spending and a winding down into recession. Those are the kinds of factors I am talking about that brought on this recession.

Mr. **Hawkins.** Mr. Partee, you seem to have overlooked many factors. Do you recall the excessive interest rates?

Mr. **Partee.** Sir, I believe that interest rates—those rates—are a function of inflation.

Mr. **Hawkins.** Do you recall what they were?

Mr. **Partee.** They were: the highest prime bank rate in history, and in the summer of 1974 it was 12 percent. The mortgage interest rate reached slightly over 10 percent. The bond yields for good but not outstanding grade corporations reached 11 percent at the peak, and this all occurred during a period in which we were having a 12-percent rate of inflation——

Mr. **Hawkins.** It preceded——

Mr. **Partee.** No, it did not precede the——

Mr. **Hawkins** [continuing.] The recession.

Mr. **Partee.** [continuing.] The recession, but not the period of high inflation.

Mr. **Hawkins.** But it preceded the recession and this was in no way any cause of that recession. Is that the statement that you are making?

Mr. **Partee.** I think it was a part of the process. I really don't believe that a substantially more rapid expansion of the monetary base in the country by the Federal Reserve would have greatly reduced those interest rates because we were dealing with the situation where people, expecting inflation, insisted on getting a return on their funds that compensated them in part for the inflation they anticipated. And we were dealing with a situation in which speculative elements—mainly regard to inventory buying at that time, because the real estate boom had passed its peak—would have absorbed additional credit had it been put into the economy, which would just have made the recession worse.

Mr. **Hawkins.** I get the impression that only those who are unemployed seem to add to inflation, but excessive interest rates don't add to the cost of production.

Let me ask you whether or not you have ever considered as a board administered prices and their impact on the economy as their influence on inflation. Do you ascribe any degree of inflation to administered prices?

Mr. **Partee.** Absolutely, prices go up.

Mr. **Hawkins.** Would you say substantial, incidental, moderate?

Mr. **Partee.** It is part of the institutional imperfections in the system. The same is true of wages.

Mr. **Hawkins.** What do you mean by institutional imperfections in the system?

Mr. **Partee.** It is the nature of the economic system. I mentioned that we need to look carefully at how the antitrust laws are functioning. There is no question that a businessman—and one can't blame him—would generally try to maintain his prices rather than maintain his production if he is faced by a period of lagging demand. His costs are fixed, because there is no way of economizing on labor input. We need to deal with that kind of imperfection and that kind of inefficiency in competition in our economic system. Those are some of the structural things that need to be dealt with.

Mr. HAWKINS. Would you suggest we look in that direction before we ask the unemployed to suffer and before we ask wage earners to have their wages reduced? Wouldn't it be helpful if we ask all groups to sacrifice at the same time?

On what basis can you justify that unequal sacrifice that you are asking the American people to make?

Mr. PARTEE. Mr. Hawkins, I think you are putting me in the position of being for unemployment. I certainly don't want to do that. I would like to see the economy produce as many jobs as it possibly can, but I want to do it on a basis that I think will be sustainable. I believe in unemployment insurance. I believe in welfare programs. I believe in the government as an employer of last resort, but at a wage that will make people want to go back to their regular jobs or to find more remunerative jobs as they open up.

Every person in this room has had his relative income reduced in recent years by the 45 percent increase in prices that has occurred over the past 5 years. We all have suffered. But I do agree that it is unfair and inequitable to have people who are unemployed for no cause of their own suffer disproportionately, and I think that has to be dealt with.

Mr. HAWKINS. I shed tears with you for all of us for the sacrifice that we are making, and I agree with you that we do suffer from inflation. That to me is the criminal phase of the whole impression—and I am not speaking of you individually—that is, given that this type of a sacrifice is necessary. You are not speaking for Mr. Burns. Mr. Burns also rejects the idea that we shouldn't achieve the goal of full employment. Mr. Burns in his testimony before the Joint Economic Committee, certainly said that Congress "should set goals for the Board to follow." He has been specific.

You, this morning, don't want to be specific. You don't want Congress to set any goals and I suppose for a very good reason. You want us to monitor you. If you don't have any goals or any targets, how in the devil can this committee or any other committee of Congress monitor you if you have nothing to which you are supposed to conform? You are supposed to meander off in any direction you want to with the President off in one direction and the Congress off in another direction lacking the type of coordination that certainly is needed if we are going to do anything to improve the economic performance. Certainly, you admit that it has been horrible and it hasn't been due to H.R. 50 and it hasn't been due to full employment.

On page 7, you make the statement that:

> We believe it would be a most serious mistake to discard the use of monetary and fiscal policy without first finding some effective alternative means of constraining inflation on an enduring basis."

What part of the bill would discard the use of monetary and fiscal policy? If the bill is not clear enough, let me stipulate to you that I would very much be in favor of making it stronger. But I see nothing in the bill to support such a statement as you have made.

Don't you think that it is time for the government itself to begin to seriously consider what the American people are going to do and that perhaps some type of public employment may be desirable at that point?

Mr. PARTEE. Yes, I do, Mr. Hawkins, but not at fully competitive wages.

Mr. HAWKINS. Let's get into the question of wages. Are you honestly for Davis-Bacon or are you opposed to it?

Mr. PARTEE. I am opposed to it.

Mr. HAWKINS. The abuses that you are talking about are not to be attributed to H.R. 50, which hasn't even been passed. Those abuses would be prevalent now. If you are against Davis-Bacon as——

Mr. PARTEE. This bill substantially widens the influence——

Mr. HAWKINS. I would go along with that, but I have here the 1976 National Jobs Conference report and, Mr. Chairman, I would ask at this time that it be entered in the record. This shows construction unemployment in the various areas of the country. In Tucson, Los Angeles and Sacramento, the story is all the same. It is up to 30 percent in most instances. I would think it would average around 20 percent overall. That is the situation that exists today.

Are you then saying that the possibility of labor which you say would be brought about as a result of H.R. 50 is not operating at the present time? Are you also saying that this is a means of pulling up wages at the present time? This is the existing situation.

Mr. PARTEE. There is substantial unemployment in construction—16 percent in March around the country, according to the Department of Labor figures. I don't know how many of those are nonunion workers and how many are union workers, but the point I was making was that the bill would tend to provide attractive employment for nonunion workers who would participate in the government program in order to get union wages.

Mr. HAWKINS. Is that happening today?

Mr. PARTEE. There aren't that many public projects.

Mr. HAWKINS. You are right.

Mr. PARTEE. This would substantially enlarge the number of public projects.

Mr. HAWKINS. But this is a present-day problem with all of its abuses and all of its problems. It is not doing what you say would be brought about as a result of H.R. 50.

Let me go over to another point on the question of the tradeoff of employment and inflation. You were given this chart that Mrs. Rivlin has submitted to the committee in her statement. There is no part of this chart that would sustain the point that you make of the tradeoff of employment and jobs, and the only part of it might be between 1969 and 1970, which is the only time in which there was a correlation of unemployment and inflation. But, at no other time in this chart has it operated differently.

Let me just review this a little bit for you. During the Truman administration, unemployment was decreased roughly in this chart from 3.9 to 2.9 percent, and inflation from 7.8 percent to 0.8 percent. That is during the Truman administration. There was no correlation as you suggest during Eisenhower's administration. Certainly we should have had a lot of control over price stability under those conditions. But, the point is that there was an increase in unemployment from 2.9 to 6.7 percent under Eisenhower. The inflation rate went from 0.05 to 1.7 percent. So that certainly refutes the position that you have talked about. You come now to the Kennedy and Johnson administrations, and from 1961 to 1965, we certainly had relatively good, strong economic growth and good price stability. The unemployment rate was decreased. There was a drop in the unemployment rate and there was a drop in the inflation rate. It was only 1966 when the economic growth itself dropped. I don't know how much effect the Federal Reserve Board had on that. I am sure they had some effect on that, too, between 1966 and 1969, which is the only period on that chart that possibly supports the contention that there was any such support for the tradeoff theory. Certainly, since 1969 you admit that has gone astray and during the past few months in which you say we have recovery—and I remind you that just 4 years ago this was also an election year—we also had recovery, too, and the Federal Reserve Board might have had something to do with that. We have a so-called recovery today and in this recovery unemployment has moved out and inflation rates have moved down.

So, from 1950 to the present, including the recovery period with the possible exception of the years from 1969 to 1970, was there anything that supports your belief on which I suppose the Federal Reserve policy is predicated, that it is necessary to have unemployment and to continue that indefinitely into the future in order to achieve price stability? If you are going to go on that basis, and I don't know how you are going to do otherwise, then it seems to me you have no basis on which to pose some reasonable alternative to current economic policies that will certainly sacrifice $3 trillion and have brought on almost $1 trillion loss in public revenues and have thrown millions of persons out of work based on the belief that it is necessary to create unemployment to fight inflation.

I would like to for you to comment on it as an alternative to H.R. 50, because I can assure you the American people are not going to suffer this type of policy too much longer in my opinion.

Mr. Partee. First of all, this is not my chart.

Mr. Hawkins. Let me furnish that as a gift. I think it supports the statement I have just made in terms of the relationship of economic growth, inflation and unemployment. I think it successfully refutes very decisively this myth as being purely political propaganda, not based on economic soundness and isn't morally just or socially desirable.

I submit that for the record, Mr. Chairman.

Mr. Partee. I think you are reading the chart very literally. I think there is an inverse relationship between the unemployment rate and the inflation rate, and it reflects an economic process.

Mr. Hawkins. Mr. Arthur Burns was quoted at the University of Georgia speech in which he denies it.

Mr. Partee. I have read it.

Mr. Hawkins. Would you say that he denied that this existed and that we had to readdress ourselves to that question?

Mr. Partee. I was going to address myself to this. I think that there is a process and that there can be lags in the relationship. But

I read the chart as indicating that there is an association between inflation and unemployment. I believe it is becoming more extreme over this period. That is a comment. I don't think you ought to be too literal in relating the two during an exact time period, because of leads and lags in the economic process.

I would rather not say that what you have to have is unemployment in order to have a low rate of price increase. I think the association really is between expansive economic conditions and inflation, rather than between unemployment and inflation. The fact of the matter is that expansive economic conditions, which tend to breed inflation, do usually increase job opportunities and thereby reduce the unemployment rate. But the unemployment rate is a fallout, you might say, from the performance of the economy. There is no necessity, as the chairman said in his Georgia speech, to tolerate unemployment over an extended period if we recognize the inequity of the unemployment, and if we take into account the possibility of providing the Government as an employer of last resort at the minimum wage, which was his point. This would take the unemployed out of a demoralized condition and they will have a job—a productive job that is accomplishing something, rather than drawing unemployment compensation or welfare. But the jobs should not be so attractive as to prevent them from looking for and seeking better alternative sources of employment. I believe that is what the chairman said in Georgia. I haven't read the speech since he gave it, but that is my recollection and I agree with that.

But I do want to say that I am very much committed to the concept of economic development as a process with leads and lags and uncertainty. Sometimes problems develop; sometimes you have some good luck. I think also that a very literal time period reading of a chart could do the existence of that process some disservice.

Mr. HAWKINS. That is why that chart gives a longer period of time. You cannot judge from month to month and I do not draw the optimism that you do when you draw the conclusion that we are well on the way to recovery. I would hope that we could see that there are dangers ahead and that every recovery has left us worse off than the previous one. I think it is up to us to see if this recovery, if it is indeed a recovery, not just an election year gimmick, leaves us better off than the last one did. Because if it doesn't, I think real danger is ahead.

I agree with your final statement on page 14 when you say

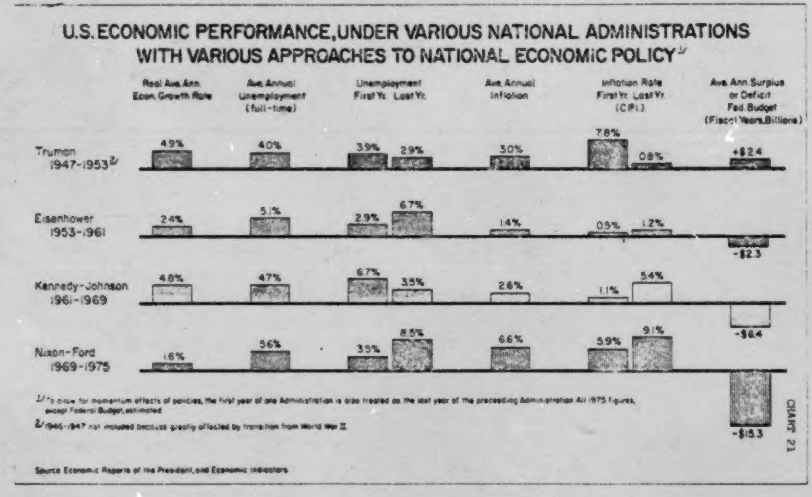
> If we are truly to commit ourselves to the broad goals of the 1946 act, we need programs and policies that achieve a greater balance among our economic objectives than is recognized in H.R. 50.

With the exception of the reference to H.R. 50, may I say I agree with that statement. That is what H.R. 50 is all about, and that is why I question whether you really read the bill or whether or not you see other complications to what I consider to be a very good thing in the field of economics which I think has gone somewhat astray.

I thank you.

Mr. **Daniels.** I will ask unanimous consent that the chart entitled "U.S. Economic Performance, Under Various National Administrations with Various Approaches to National Economic Policy" be incorporated in the record at this point.

[The chart referred to follows:]

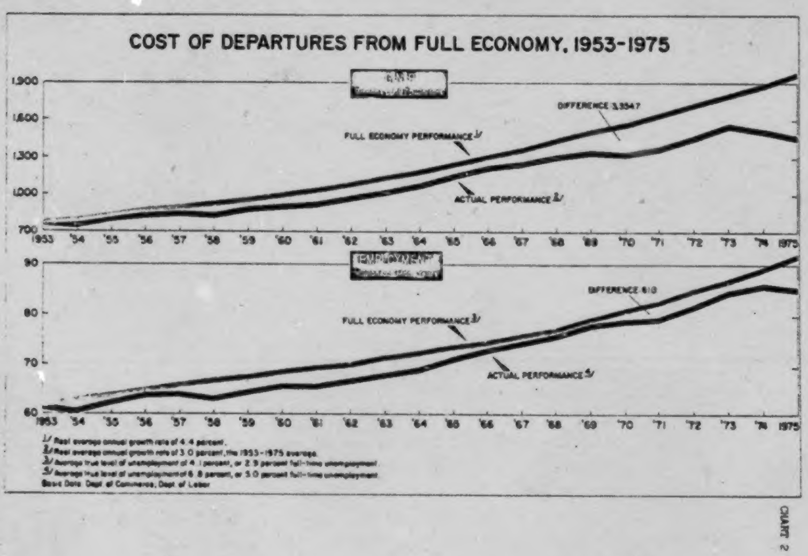


U.S. ECONOMIC PERFORMANCE, UNDER VARIOUS NATIONAL ADMINISTRATIONS WITH VARIOUS APPROACHES TO NATIONAL ECONOMIC POLICY 1/

1/ To allow for momentum effects of policies, the first year of one Administration is also treated as the last year of the preceding Administration. All 1975 figures, except Federal Budget, estimated.

2/ 1946-1947 not included because greatly affected by transition from World War II.

Source: Economic Reports of the President, and Economic Indicators.



COST OF DEPARTURES FROM FULL ECONOMY, 1953-1975

1/ Real average annual growth rate of 4.4 percent.

2/ Real average annual growth rate of 3.0 percent, the 1953-1975 average.

3/ Average true level of unemployment of 4.1 percent, or 2.9 percent full-time unemployment.

5/ Average true level of unemployment of 6.8 percent, or 5.0 percent full-time unemployment.

Basic Data: Dept. of Commerce, Dept. of Labor

Mr. Daniels. Mr. Gaydos.

Mr. Gaydos. At page 15 of the bill and particularly subsections (3)(a) and (3)(b), I submit it outlines the controls or directions of the Federal Reserve Board system, under the theory of this act, if it is going to work, and that is where I direct your attention.

Let me ask you generally, could the Federal Reserve Board—and some people call it the fourth arm of government—do you think they can deal with those sections involving, for instance, the monetary support, interest rates, credit available, and then the Board of Governors under (b), page 16, shall transmit to the President certain reports. The President, of course, has the final veto power if it were to become law.

Mr. Partee. No, sir. We don't like that, as I said about midway through the testimony. We think that introducing the Executive into the process with his own proposals for monetary policy—creating in effect a competition between the President and the Federal Reserve—would be destructive over time. It might work for a while, but there are points in time when it could be quite harmful. We would prefer to see the type of relationship strengthened, if you will, between the Congress and the Federal Reserve, rather than between the Executive and the Federal Reserve.

Mr. Gaydos. I want to get that position very clearly on the record. Thank you very much.

Mr. Daniels. Mr. Sarasin.

Mr. Sarasin. I again would like to thank you. I assume, since the Federal Reserve Board has been blamed for all of the ills of the economy, that you can take credit for the success and the recovery that is now occurring, but I haven't heard anyone give you credit for that. I guess you can't take all the credit, but I don't think you should take all the blame.

I think there are a lot of factors that touch on the economy, some well beyond our control, such as the Arab oil embargo. So you have to deal with an irresponsible Congress, and I would think that has a big effect on the health of the country. I wonder if you would comment on my last remark.

Mr. Partee. One needs to divide the budget deficit results between those that are caused by the shortfall in the economy and those that are caused by increased spending programs for which tax provision isn't made. A substantial part of the recent very large deficits of $60 or $70 billion is a product of the shortfall of the economy. I don't believe that this is basically inflationary. There can be differences, of course, as to what constitutes full employment revenues. It is a tricky business to make that estimate, and I think those revenues often tend to be overestimated. But I would say that a large part of the deficit we have seen is not inflationary because it results from a weakness in the economy and in effect substitutes public purchasing power for private purchasing power, and public access to credit for private tapping of credit markets. It is a tricky problem in a democratic society to keep public programs from expanding too rapidly and absorbing too much of the national output, and to see that the programs that are approved are matched by an appropriate tax revenue provision.

In that connection, the establishment of the Budget Committees in both the Senate and the House mark a real effort to do something, to do some balancing of costs and benefits and to know what is suitable and what isn't. But, of course, only time will show whether it meets the test.

On your other comment, I am pleased you made it because it should have been made at some point in this inquiry. I believe that the Federal Reserve has a considerable influence on the economy via the policies that it conducts. But I don't think it is all powerful or anything else like it. There are limits, certain limits to how much you can expect of monetary policy. It does have to compete with many other factors and it cannot take account of all of them. Monetary policy is often referred to as the be-all of economic development. On the basis of my observation I would say that is a gross exaggeration. It is important, but not all-important.

Mr. SARASIN. I would like to thank you again for the time you have spent with this committee. I think you have been most helpful in our deliberations.

Mr. CHAIRMAN, I yield back.

Mr. DANIELS. Thank you, Mr. Partee.

Our next witness is Alice Rivlin, director of the Congressional Budget Office. I notice you have a statement. You may submit it for the record or you may summarize it any way that you desire to. You have the option.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mrs. RIVLIN. I would like to read parts of it, if that is all right with you. I appreciate this opportunity to be with you today and to comment on HR 50, the Full Employment and Balance Growth Act of 1976.

Unemployment is a continuing human problem as well as an economic problem. At present, the rate of unemployment is far above its average during the last 25 years for every sizable group in the labor force. Overall, the latest reading is 7.5 percent, a gap of 2.6 percentage points above the 1950–1975 average of 4.9 percent. For some groups, the gap is smaller; for adult white males, for example, the current rate of 5.1 percent is 1.5 points above the long-term average of 3.6 percent. For some groups, the gap is larger; for teenagers the current rate of 19.1 percent is 5.4 points above the long-term average of 13.7 percent. For nonwhite teenagers, the current rate is an alarming 35.9 percent, 9.6 points above the long-term average of 26.3 percent. Chart one shows these comparisons of current and average unemployment rates.

Fortunately, unemployment rates have been declining recently and are expected to continue declining at least over the next year and probably beyond then as well. In its recent annual report, the

Congressional Budget Office projected an overall unemployment rate of 7.0 to 7.5 percent by the fourth quarter of this year and 6.4 to 6.9 percent by the fourth quarter of 1977.

While the projections clearly point to an improvement over the current situation, they bring unemployment less than halfway from its current 7.5 percent rate to the long-term average of 4.9 percent. The question is: Can we do better than this unemployment forecast over the next 2 years and can we do better than the long-term averages over, say, the next 10 years? I believe the answer to both of these questions is yes, but that doing better requires departures from current policies and carries significant risks.

Many of the policy tools which could improve our unemployment performance are referred to in H.R. 50, with which you are all familiar.

The Congressional Budget Office analyzed and compared some employment stimulating policies in a report issued last summer, "Temporary Measures to Stimulate Employment." The report concluded that a number of these policies were more effective than standard tax or spending changes in number of jobs which could be created per billion dollars of spending or per billion dollars of additional Federal deficit.

At the request of the Joint Economic Committee, we are now working on an economic analysis of H.R. 50, drawing on the earlier report and other sources. The study is not complete and it would be premature to try to anticipate its findings here.

What may be useful at the present time is some comment on two statistical matters relevant to full employment policies in general and H.R. 50 in particular; namely the relationship between adult unemployment and total unemployment and the relationship between unemployment goals and growth rates.

The requirements for reaching the goal of 3 percent adult unemployment depends, of course, on who is classified as an adult. A useful rule of thumb in this regard is that the overall unemployment rates is roughly 1 percentage point above the unemployment rate of those 20 years and older.

Table 2, containing more precise comparisons year by year, shows that since the early 1960s, the differential has ranged from 0.6 percent to 1.2 percent. Although demographic factors in the future could reduce this differential, projections by the Urban Institute indicate that this approximate spread will persist through 1980.

Thus, if we speak of 3 percent nonteenage unemployment, we are referring to a 4 percent overall rate. If we include some or all of the under-20 group in the definition of adult, then a 3 percent goal for adults moves closer to a 3 percent overall rate.

It is not, I feel, discriminatory or insulting to young workers to recognize that their unemployment problem has special causes and can, to some extent, be dealt with separately from the unemployment of other workers. Among special causes of youth unemployment are recent rapid increases in the teenage population, problems of work/school transition, and legal regulations governing employment and labor conditions which have their greatest impact on youth.

Policies to deal with some of these special factors may have relatively little effect on the unemployment of those 20 and over, while policies which bring the 20 and over unemployment rate down to 3 percent will in all likelihood leave the teenage unemployment rate far above 3 percent.

It would take an extremely rapid rate of growth to get from today's 7.5 percent unemployment rate to a rate consistent with 3 percent adult unemployment in 4 years or less, even if adults are defined to include only those 20 years and over.

The President's budget message for this year contained a set of long-run projections assuming an average growth rate of 6.3 percent from 1977 to 1980, and found this rate to be consistent with reaching a 5.2 percent unemployment rate in 1980.

A 3-year rate of growth of 6.3 percent starting after 2 years of recovery would be well above the range of United States experience during the last 30 years, and yet the projected terminal unemployment rate is well above 3 percent for adults. Other projections might not produce exactly the same numbers as the Administration's—in particular, the rapid drop in unemployment since December should lower slightly the growth rate required to reach 5.2 percent by 1980—but the same general conclusion would emerge.

Sustained highly expansionary general fiscal and monetary policies or special employment-creating policies are probably needed to achieve the goals of the bill within a few years, unless there is much more strength in the private sector than is suggested by any current evidence or recent economic projections.

Two of the risks of vigorous pursuits of a low unemployment rate are that inflation will accelerate and that some of the special measures to create jobs or to restrain inflation will prove ineffective and wasteful. The inflation risk is probably greatest if standard monetary and fiscal measures are the main policy tools used to achieve low unemployment.

Reliance on special employment-creating policies should reduce the inflation risk, but at the cost of increasing the danger of inefficient and wasteful programs.

Economists are far from agreement about the magnitude of the inflation risk. Generally, accelerating inflation has corresponded to falling unemployment, vice versa, as the much discussed chart 2 seems to illustrate; but the relation is far from perfect or unchanging.

Mr. **Hawkins**. What degree of imperfection do you see in that chart that you have submitted to us? It supports the thesis that rising unemployment has produced a greater price stability. Is that the reason for including that?

Mrs. **Rivlin**. That is the reason for including that chart and I think not just the chart, but most——

Mr. **Hawkins**. Which part of the chart says that?

Mrs. **Rivlin**. I think just looking at the chart which is on page 12——

Mr. **Hawkins**. Does that relate to the economic performance since 1969 and sustain that thesis?

Mrs. **Rivlin**. Let me answer the first part of the question first. When the unemployment rate is down, in general, the inflation rate moves the other way. Now, the experience since then——

Mr. **Hawkins**. The unemployment goes down, inflation goes up?

Mrs. **Rivlin**. When unemployment goes down, inflation——

Mr. **Hawkins**. Inflation goes up. That is the statement you made, isn't it? I think your chart says that in effect. That is why I am wondering. I thought maybe someone in your staff had thrown that chart in. I didn't give you credit for including it.

Mrs. **Rivlin**. You don't think in general that when unemployment is down and labor markets are tight and employment is high that inflation tends to rise?

Mr. **Hawkins**. Now you are getting into the trade-off. Let's go on. I just don't think the chart does what you say it does. But I wanted to express an opinion at this time. I think your chart is very misleading, to say the least and I think you protected your self by saying "generally." That is why I wanted to know the degree of imperfection that was in it.

I am sorry if I interrupted you.

Mrs. **Rivlin**. We can come back to that. I would certainly stand by the point that in general the experience has been that a tight labor market and low unemployment rates do generally go with rising prices. It is not a perfect relationship, but it has certainly generally been the experience of most advanced economies over the last period of which we have data.

The risks of inefficient or wasteful programs depend on which special employment-creating or inflation-restraining policies receive the greatest emphasis. I shall restrict my comments to public employment programs, although it is important to keep in mind that public employment is only one among many policy tools which could be utilized under H.R. 50.

It is useful to separate public employment which is designed to deal with structural problems of high, long-run unemployment of certain groups from public employment as a countercyclical policy. A public employment program to deal with structural problems would be directed toward unskilled and other disadvantaged individuals. Such a program could be a supplement to standard fiscal and monetary policies even if full reliance were placed on these policy tools for combating cyclical unemployment. Unskilled and disadvantaged workers have high unemployment rates even in relatively tight labor markets.

They hold jobs at the bottom of the labor market hierarchy, predominantly as laborers and low-level sales and services workers. They experience far more frequent spells of unemployment than other workers.

There is little incentive for employer or employee to maintain a long-term work relationship since there is little, if any, on-the-job training and hence no payoff in seniority. Job satisfaction is low, and this also weakens job ties. The employer can normally find an unskilled replacement, and in tight labor markets, the worker can find another poor job.

A structural program to reduce the unemployment rates of the unskilled and disadvantaged should focus on measures to strengthen job attachment. Training, together with the provision of opportunities for upward mobility, would presumably be important components of such a program. A risk of a program of this kind is that it might be ineffective, and hence add to the cost of Government with little resulting benefit. Training programs of the 1960's do not offer strong ground for encouragement on this score.

Another possible outcome of a structural public employment program is that it would provide more attractive jobs than private employers. Indeed, this feature would be inherent in the program. A disadvantage of this result could be that it would drive up wages in low-level private sector jobs. At the same time, however, this feature could draw more attention to improving the quality of working life in the private sector. This has been the case in certain European countries that enacted job guarantee programs in the 1960's.

Upgrading working conditions in low-level private sector jobs could be facilitated by appropriate subsidies to business for providing training and an improved working environment. To the extent that increased training and better working conditions enhance worker productivity, the inflatonary effects of wage increases would be offset.

A countercyclical public service employment program should not be confused with the structural program because its aims are different. The idea behind a countercyclical public employment program is to provide work as an alternative to income transfers for persons who are unemployed because of temporary cyclical factors, not because of their own characteristics.

Providing work for the cyclically unemployed makes sense in that useful services can be performed by people who would otherwise be idle. Further, work as an alternative to income transfers may improve an individual's sense of pride and self-esteem while at the same time maintaining work habits and skills.

If a public service employment program is to remain strictly countercyclical, that is, automatically fading out as private employment recovers, it should not offer options that are more attractive than the private sector.

Wages should be kept lower than private sector alternatives, although higher than unemployment compensation, and working conditions should not be unduly attractive. Individuals should be encouraged to move into private sector or regular State and local government jobs when openings become available. In these respects, a well-designed countercyclical program differs from a structural program.

One risk of a countercyclical public employment program goes under the name of displacement. Usually, displacement refers to the use of public employment funds by State and local governments to hire persons they would have hired anyway or to shift job categories so that persons they have hired anyway qualify for a subsidy. In this case, the program is like a general grant to State and local governments. It may not result in any special stimulus to employment per dollar spent; but it is important to realize that even in this case the program is providing the same kind of stimulus to demand as general revenue sharing or a tax cut.

Studies of past experience with public employment programs suggest that significant displacement does take place. The programs which have been studied, however, resemble structural programs more than countercyclical programs. For countercyclical programs there are several plausible ways of attempting to limit displacement. Eligibility could be restricted to persons who have been unemployed for some weeks or months. Activities qualifying under the program could emphasize jobs not usually performed by State or local governments. A program could be administered by the Federal Government instead of State and local governments.

The suggestion of this last paragraph—that new ways can be sought to solve old problems—is a fitting theme on which to conclude this statement. As long as substantial numbers of workers are looking for jobs and can't find them, new ways should and will be sought to improve the labor market and the economy.

The function of the Congressional Budget Office is not to advocate one or another policy, but rather to analyze possible approaches, including the costs and risks as well as the benefits and promises. I sincerely hope our work can be helpful to the Congress as it develops workable and permanent solutions to the unemployment problem.

[The prepared statement follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to be with you today and to comment on H.R. 50, the "Full Employment and Balanced Growth Act of 1976".

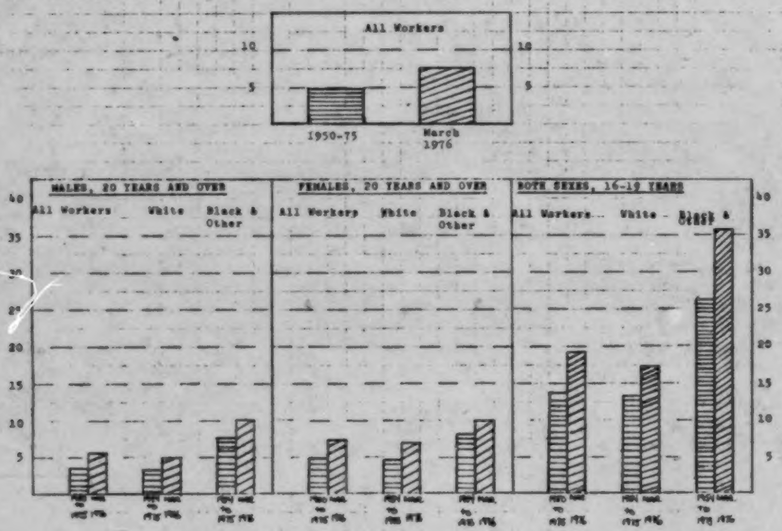
Unemployment is a continuing personal as well as an economic problem. For the economy it represents a waste of resources that is reflected in a lower level of output of goods and services than could potentially be produced. For individuals it represents not only loss of income associated with joblessness, but deterioration of skills and damage to a sense of pride and self-esteem. Moreover, even at high levels of aggregate employment unemployment problems persist for minorities, teenagers, and some other groups. Reducing unemployment is thus important not just to restore full capacity production but also to provide the opportunity to participate in the economy for all groups of workers.

At present, the rate of unemployment is far above its average during the last 25 years for every sizable group in the labor force. Overall, the latest reading is 7.5 percent, a gap of 2.6 percentage points above the 1950–1975 average of 4.9 percent. For some groups, the gap is smaller; for adult white males, for example, the current rate of 5.1 percent is 1.5 points above the long-term average of 3.6 percent. For some groups, the gap is larger; for teenagers the current rate of 19.1 percent is 5.4 points above the long-term average of 13.7 percent. For nonwhite teenagers the current rate is an alarming 35.9 percent, 9.6 points above the long-term average of 26.3 percent. Chart 1 shows these comparisons of current and average unemployment rates.

Fortunately, unemployment rates have been declining recently and are expected to continue declining at least over the next year and probably beyond then as well. In its recent annual report, the Congressional Budget Office projected an overall unemployment rate of 7.0 to 7.5 percent by the fourth quarter of this year and 6.4 to 6.9 percent by the fourth quarter of 1977. These estimates are based on the assumption of a "current policy" federal budget, one that extends existing spending programs and tax laws without any cutbacks, new initiatives, or substantial changes in government efficiency. Table 1 shows the CBO forecasts for unemployment and several other key indicators.

While the projections clearly point to an improvement over the current situation, they bring unemployment less than halfway from its current 7.5 percent rate to the long-term average of 4.9 percent. Can we do better than this unemployment forecast over the next two years?

CHART 1--UNEMPLOYMENT RATES, LONG-TERM AVERAGE AND MARCH 1976



ECONOMIC PROJECTIONS, 1976 AND 1977

Economic indicators	Actual, 1975: IV	Projected range 1976: IV	Projected range 1977: IV	Projected growth rate (percent) 1975: IV to 1976: IV	Projected growth rate (percent) 1976: IV to 1977: IV
GNP, billions of current dollars	1, 573	1,755 to 1,775	1.955 to 1,975	+11.5 to +12.8	+10.7 to +12.0.
GNP, billions of 1972 dollars	1, 216	1,285 to 1,300	1,355 to 1,375	+5.5 to +7.0	+5.0 to +6.5.
General Price Index (GNP deflator, 1972=100).	129	135 to 138	142 to 146	+5.0 to +6.5	+4.7 to +6.2.
Consumer Price Index (1967=100).	166	174 to 177	183 to 188	+5.0 to +6.5	+4.7 to +6.2.
Unemployment Rate	8. 5	7.0 to 7.5	6.4 to 6.9		

Source: Budget Options for fiscal year 1977: A report to the Senate and House Committees on the Budget, Congressional Budget Office, Mar. 15, 1976, p. 20.

And can we do better than the long-term averages over, say, the next ten years? I believe that the answer to both questions is yes, but that doing better both requires departures from current policies and carries significant risks. Let me turn first to the policies, and then to the risks.

POLICIES TO STIMULATE EMPLOYMENT

Many policy tools which could improve our unemployment performance are referred to in H.R. 50. The bill refers to standard fiscal and monetary policy tools, standby public works, antirecession grants for state and local governments, and skill training in the public and private sectors. It also refers to public service employment programs which could provide job opportunities for adult Americans who are unable to find work until a target of 3 percent adult unemployment is attained. The goal of 3 percent adult unemployment is to be attained in 4 years or sooner. Not only would the President be required in each annual economic report to recommend numerical goals for employment, production, and inflation, but he would also recommend which policies to use in support of these goals.

Further, regional and structural employment policies are identified to reduce unemployment of both labor and capital in certain areas of the country and to reduce unemployment for certain groups within the labor market. These policies do not include modifying the federal minimum wage or the Davis-Bacon Act, standards to which employment under the bill would be required to adhere. For teenagers, the President is required to submit to Congress a comprehensive youth employment program within 90 days after enactment.

The bill also contains recommendations for anti-inflation policies to supplement monetary and fiscal policies. These include measures to ensure adequate supplies of scarce commodities, particularly food and energy, recommendations to strengthen and enforce antitrust laws, measures to increase productivity in the private sector and recommendations for administrative and legislative actions to promote reasonable price stability (presumably some form of price or wage controls or guidelines) if serious inflationary pressures arise.

The Congressional Budget Office analyzed and compared some employment-stimulating policies in a report issued last summer, Temporary Measures to Stimulate Employment. The report concluded that a number of these policies ranged higher than standard tax or spending changes in number of jobs which could be created per billion dollars spent or per billion dollars of additional federal deficit. We are now working on an economic analysis of H.R. 50 at the request of the Joint Economic Committee, drawing on the earlier report and other sources. The study is not complete and it would be premature to try to anticipate its findings here.

What may be useful at the present time is some comment on two statistical matters relevant to full employment policies in general and H.R. 50 in particular; namely (1) the relation between adult unemployment and total unemployment, and (2) the relation between unemployment goals and growth rates.

The requirements for reaching the goal of 3 percent adult unemployment depend, of course, on who is classified as an adult. A useful rule of thumb in this regard is that the overall unemployment rate is roughly one percentage point above the unemployment rate of those 20 years and older. Table 2, containing more precise comparisons year by year, shows that since the early 1960s the differential has ranged from 0.6 percent to 1.2 percent. Although demographic factors in the future could reduce this differential, projections by the Urban Institute indicate that this approximate spread will persist through 1980. Thus, if we speak of 3 percent non-teenage unemployment we are referring to a 4 percent overall rate. If we include some or all of the under-20 group in the definition of adult, then a 3 percent goal for adults moves closer to a 3 percent overall rate.

It is not, I feel, discriminatory or insulting to young workers to recognize that their unemployment problem has special causes and can to some extent be dealt with separately from the unemployment of other workers. Among special causes of youth unemployment are recent rapid increases in the teenage population, problems of work-school transition, and legal regulations governing employment and labor conditions which have their greatest impact on youth.

TABLE 2.—UNEMPLOYMENT RATES FOR ALL PERSONS 16 AND OVER COMPARED WITH NONTEENAGE UNEMPLOYMENT RATES

Year	(1) Unemployment rate 16+	(2) Unemployment rate 20+	(1)-(2) difference
1950	5.3	4.8	0.5
1951	3.3	3.0	.3
1952	3.0	2.7	.3
1953	2.9	2.6	.3
1954	5.5	5.1	.4
1955	4.4	3.9	.5
1956	4.1	3.7	.4
1957	4.3	3.8	.5
1958	6.8	6.2	.6
1959	5.5	4.8	.7
1960	5.5	4.8	.7
1961	6.7	5.9	.8
1962	5.5	4.9	.6
1963	5.7	4.8	.9
1964	5.2	4.3	.9
1965	4.5	3.6	.9
1966	3.8	2.9	.9
1967	3.8	3.0	.8
1968	3.6	2.7	9
1969	3.5	2.7	.8
1970	4.9	4.0	.9
1971	5.9	4.9	1.0
1972	5.6	4.5	1.1
1973	4.9	3.8	1.1
1974	5.6	4.5	1.1
1975	8.5	7.3	1.2

Source: Bureau of Labor Statistics.

Note.—Column (1) is the unemployment rate for the civilian labor force for all persons 16 and over. Column (2) is the unemployment rate for the civilian labor force excluding teenagers, that is, persons 16–19.

Policies to deal with some of these special factors may have relatively little effect on the unemployment of those 20 and over, while policies which bring the 20-and-over unemployment rate down to 3 percent will in all likelihood leave the teenage unemployment rate far above 3 percent.

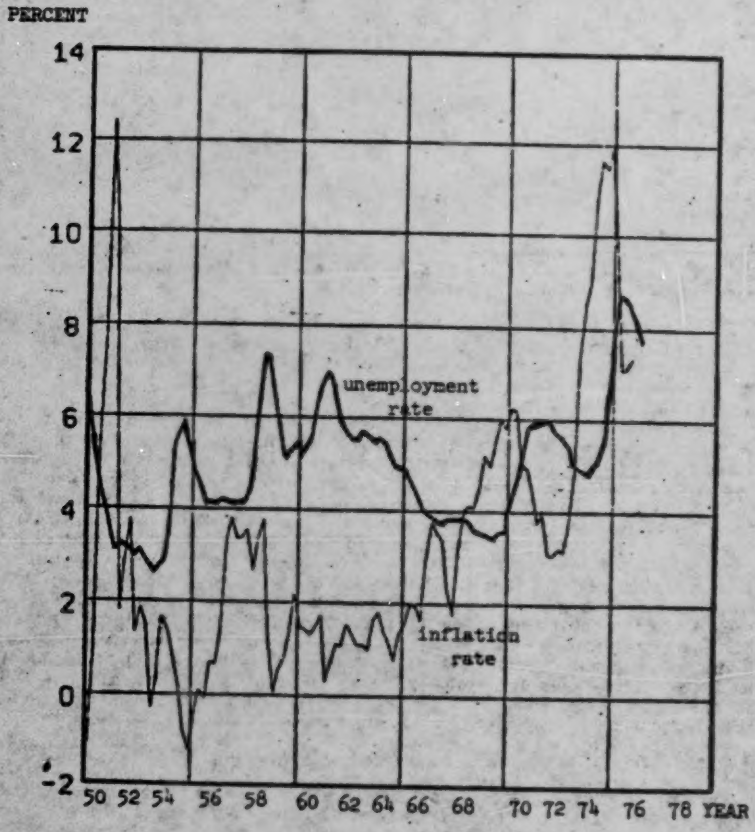
It would take an extremely rapid rate of growth to get from today's 7.5 percent unemployment rate to a rate consistent with 3 percent adult unemployment in 4 years or less, even if adults are defined to include only those 20 years and over. The President's budget message for this year contained a set of long-run projections assuming an average growth rate of 6.3 percent from 1977 to 1980, and found this rate to be consistent with reaching a 5.2 percent unemployment rate in 1980. A three-year rate of growth of 6.3 percent starting after two years of recovery would be well above the range of U.S. experience during the last 30 years, and yet the terminal unemployment rate is well above 3 percent for adults. Other projections might not produce exactly the same numbers as the administration's—in particular, the rapid drop in unemployment since December should lower slightly the growth rate required to reach 5.2 percent by 1980—but the same general conclusion would emerge. Sustained highly expansionary general fiscal and monetary policies or special employment-creating policies are probably needed to achieve the goals of the bill within a few years, unless there is much more strength in the private sector than is suggested by any current evidence or recent economic projections.

RISKS OF A LOW UNEMPLOYMENT GOAL

Two of the risks of vigorous pursuit of a low unemployment rate are that inflation will accelerate and that some of the special measures to create jobs or to restrain inflation will prove ineffective and wasteful. The inflation risk is probably greatest if standard monetary and fiscal measures are the main policy tools used to achieve low unemployment. Reliance on special employment-creating policies should reduce the inflation risk, but at the cost of increasing the danger of inefficient and wasteful programs.

Economists are far from agreement about the magnitude of the inflation risk. Generally, accelerating inflation has corresponded to falling unemployment, and vice versa, as Chart 2 illustrates; but the relation is far from perfect or unchanging. Those who worry the least about this risk can point to 1952–53, when unemployment rates of 3 percent coexisted with a zero rate of inflation. Those who worry the most can point to 1973, when an unemployment rate which only briefly fell below 5 percent accompanied an inflation rate rising from 5 to 10 percent.

CHART 2--INFLATION AND UNEMPLOYMENT, 1950-1976



SOURCE: Bureau of Labor Statistics.

NOTE: Inflation is measured by the percent change from two quarters earlier in the Consumer Price Index, expressed at an annual rate.

Special factors can explain some, but not all, of the variations in the inflation-unemployment tradeoff. In 1952–53 these factors included controls over prices, wages and consumer credit as well as the fallback from the worldwide speculative runup of prices at the start of the Korean War. In 1973 special factors included cutbacks in world food supplies, the formation of OPEC, and the gradual shift in the composition of the labor force toward a lower proportion of adult males and a higher proportion of teenagers. Even after taking account of these factors, however, the most that can be concluded is that there is some significant risk that a return to 4 percent overall unemployment or less within 4 years would bring with it a significant acceleration of inflation. The risk is greater the more comprehensive is the definition of "adult unemployment."

The risks of inefficient or wasteful programs depend on which special employment-creating or inflation-restraining policies receive the greatest emphasis. I shall restrict my comments for now to public employment programs, although it is important to keep in mind that public employment is only one among many policy tools which could be utilized under H.R. 50.

It is useful to separate public employment to deal with structural problems of high, long-run unemployment of certain groups from public employment as a countercyclical policy. A public employment program to deal with structural problems would be directed toward unskilled and other disadvantaged individuals. Such a program could be a supplement to standard fiscal and monetary policies even if full reliance were placed on these policy tools for combating cyclical unemployment. Unskilled and disadvantaged workers have high unemployment rates even in relatively tight labor markets. They hold jobs at the bottom of the labor market hierarchy, predominating as laborers and low-level sales and services workers. They experience far more frequent spells of unemployment than other workers. There is little incentive for employer or employee to maintain a long-term work relationship since there is little, if any, on-the-job training and hence, no payoff to seniority. Job satisfaction is low, and this also weakens job ties. The employer can normally find an unskilled replacement. And, in tight labor markets, the worker can find another poor job.

A structural program to reduce the unemployment rates of the unskilled and disadvantaged should focus on measures to strengthen job attachment. Training, together with the provision of opportunities for upward mobility, would presumably be important components of such a program. A risk of a program of this kind is that it might be ineffective, and hence add to the cost of government with little resulting benefit. Training programs of the 1960s do not offer strong ground for encouragement on this score.

Another possible outcome of a structural public employment program is that it would provide more attractive jobs than private employers. Indeed, this feature would be inherent in the program. A disadvantage of this result could be that it would drive up wages in low-level private sector jobs. At the same time, however, this feature could draw more attention to improving the quality of working life in the private sector. This has been the case in certain European countries that enacted job guarantee programs in the 1960s. Upgrading working conditions in low-level private sector jobs could be facilitated by appropriate subsidies to business for providing training and an improved working environment. To the extent that increased training and better working conditions enhance worker productivity, the inflationary effects of wage increases would be offset.

A countercyclical public service employment program should not be confused with the structural program because its aims are different. The idea behind a countercyclical public employment program is to provide work as an alternative to income transfers for persons who are unemployed because of temporary cyclical factors. Providing work for the cyclically unemployed makes sense in that useful services can be performed by people who would otherwise be idle. Further, work as an alternative to income transfers may improve an individual's sense of pride and self-esteem while at the same time maintaining work habits and skills.

If a public service employment program is to remain strictly countercyclical —that is, automatically fading out as private employment recovers—it should not offer options that are more attractive than the private sector. Wages should be kept lower than private sector alternatives (although higher than unemployment compensation) and working conditions should not be unduly attractive.

Individuals should be encouraged to move into private sector (or regular state and local government) jobs when openings become available. In these respects a well-designed countercyclical program differs from a structural program.

One risk of a countercyclical public employment program goes under the name of displacement. Usually, displacement refers to the use of public employment funds by state and local governments to hire persons they would have hired anyway or to shift job categories so that persons they have hired anyway qualify for a subsidy. In this case the program is like a general grant to state and local governments. It may not result in any special stimulus to employment per dollar spent; but it is important to realize that even in this case the program is providing the same kind of stimulus to demand as general revenue sharing or a tax cut.

Studies of past experience with public employment programs suggest that significant displacement does take place. The programs which have been studied, however, resemble structural programs more than countercyclical programs. For countercyclical programs there are several plausible ways of attempting to limit displacement. Eligibility could be restricted to persons who have been unemployed for some weeks or months. Activities qualifying under the program could emphasize jobs not usually performed by state or local governments. A program could be administered by the federal government instead of state and local governments.

The suggestion of this last paragraph—that new ways can be sought to solve old problems—is a fitting theme with which to conclude this statement. As long as substantial numbers of workers are looking for jobs and can't find them, new ways should and will be sought to improve the labor market and the economy. The function of the Congressional Budget Office is not to advocate one or another policy but rather to analyze possible approaches, including the costs and risks as well as the benefits and promises. I sincerely hope our work can be helpful to the Congress as it develops workable and permanent solutions to the unemployment problem.

Mr. Daniels. Thank you, Mrs. Rivlin. On page 7 of your statement, you mention that your office is working on an economic analysis of H.R. 50 at this time. Could you give this committee an outline of the study you are working on analyzing?

Mrs. Rivlin. Yes, we can do that.

Mr. Daniels. Can you submit that to the committee?

Mrs. Rivlin. Certainly.

Mr. Daniel. How low do you think unemployment can go under the current policies of the administration?

Mrs. Rivlin. It is going to take a long time with current policies to get unemployment down even into the range of 5 percent.

Mr. Daniels. Do you feel 5 percent a reasonable percentage of unemployment?

Mrs. Rivlin. No, I wasn't saying that. Your question was how low did it seem to be going.

Mr. Daniels. For many years in this country, 4 percent was the national average and seemed to be fair for the purpose of full employment. What is your view on that?

Mrs. Rivlin. I don't think there is any blanket number that constitutes full employment, Mr. Chairman. The unemployment rate now and that which one would expect over the next couple years if nothing changes are substantially above what could be achieved. The question of how far one can go leads one into a lot of uncertainty about inflation. The statistics suggest that we do have strong inflation and this may have gotten worse over the last few years and I stress "may." It is not entirely clear what rate of unemployment is achievable by fiscal and monetary measures alone without reescalating inflation. But certainly I think most economists are inclined to believe that unless something changes, going below 4.5 percent or something of that range is going to make people nervous about the possibility of a resurgence of inflation.

That doesn't mean one can't go below 4.5 percent. It may mean that other measures are necessary either to control the inflation directly, or to reduce the inflationary biases in the economy and to find ways of providing jobs that will have less inflationary impact than direct fiscal and monetary stimulus.

Mr. **DANIELS.** What changes do you believe we should make in our fiscal and monetary policies at the present time in part to reduce unemployment and at the same time try to hold down an inflationary impact.

Mrs. **RIVLIN.** Let me stress, Mr. Chairman, that in my present position, I am not able to make a specific recommendation of that sort. The role of the Congressional Budget Office is to be as helpful as we can in suggesting what the alternatives are and what the consequences of various policies might be, but not to suggest specific policies.

Mr. **DANIELS.** Congressman Hawkins has sponsored H.R. 50 as an alternative to cut down the unemployment rate as well as to curb inflation. Now, what do you suggest?

Mrs. **RIVLIN.** I think H.R. 50 is a bill which would allow the use of quite a flexible set of tools. It suggests the use of fiscal and monetary policies in combination with special measures, such as public service employment, and it seems to me in that respect to be a very good step.

I am not sure if you are asking me to recommend a particular package of measures. I don't regard that as my role. What we can do to help and will hope to do in the study that I mentioned is to lay out some of the alternatives and some of the considerations that must be taken into account in alternative strategies for reducing unemployment.

Mr. **DANIELS.** Would you be prepared to submit that information to the committee at some future date?

Mrs. **RIVLIN.** The study that we are doing for the Joint Economic Committee; certainly, if that is all right with them.

Mr. **DANIELS.** When can we look forward to receiving it?

Mrs. **RIVLIN.** Mid-May is when we promised it to them.

Mr. **DANIELS.** I thank you. Mr. Sarasin.

Mr. **SARASIN.** Thank you, Mr. Chairman, Mrs. Rivlin, thank you very much for your patience this morning. I received the impression from your testimony and in reading your statement that you agree with Dr. Partee's comments. I don't wish to put you in an awkward position in saying that, except I see some of the same references made, such as the reference to the danger of going to a prevailing wage in public service employment which then becomes more attractive than wages available in the private sector.

You also point out that if we really are to use public service employment as a countercyclical device, somehow there has to be a way for us to terminate it, or we risk displacement, by providing public service employment as a simple method of taking the burden off the local taxpayer and placing it on the Federal Government, for we have done nothing to hire the people who had formerly been employed in the private sector.

I think you make a lot of sense in your statement and I hope the committee would take your statement to heart.

You said there are some instances in which you agree with Mr. Partee. I wonder if you would be a little more specific and tell us what those are.

Mrs. **Rivlin.** Yes, certainly. While not taking any position for or against the bill—in contrast to Mr. Partee—I want to stress that I think this committee and the Congress as a whole must weigh some of the advantages and pluses of taking special measures to reduce the unemployment rate against some of the risks of doing so. I think the indisputable fact is that inflation has become a more and more serious and troublesome problem, not only for the U.S. economy but for other advanced economies in Western Europe and other parts of the world. Some of the biases that lead us to inflation have been mentioned already this morning. Administered prices in large sectors of the economy mean that even when demand is weak, prices tend not to fall.

In an administered price system, the major companies are often able to raise their prices in the face of falling demand which is not what one would expect in a competitive economy and that does mean, as someone said earlier, that prices tend to go up under all kinds of circumstances and rarely to come down.

There are inflationary biases built into our wage determination system as well and perhaps rightly so. But it is certainly true that, even in slack periods in the labor market, wages tend not to come down. They tend perhaps to rise less rapidly. But institutionally, we have structured things so that it is difficult for either wages or prices to come down. That means that once inflation gets started, perhaps through outside causes such as a rise in the international oil price, it does work itself through our economy and is very difficult to stop by any means, including a high unemployment rate.

Mr. **Sarasin.** In your statement, you referred to the age being those people 20 years and over. It is my understanding that the sponsor of H.R. 50 assumed that adult employees would be age 16 and over. What would that do to your projection?

Mrs. **Rivlin.** Sixteen and over is the way we normally define the labor force. It had seemed to me on first reading of H.R. 50 that the word "adult" was perhaps intended to restrict the definition in some way, either to 18 or 20 or something like that, in order to make the point that there were some special problems of the teenage unemployed that might not be amendable to normal fiscal policy.

I certainly am not one to define adults or to second guess the authors of the bill as to what they meant. It does seem, however, useful perhaps to exclude teenagers—not at all in terms of saying teenage unemployment isn't important; it is very important. But the measures that one might take to reduce teenage unemployment might have to be somewhat special and outside of the realm of normal policy.

Mr. **Sarasin**. I would agree very much with that statement.

Mr. **Hawkins**. Will the gentleman yield? I simply wanted to agree with the gentleman from Connecticut. The bill does define adult as one 16 years of age or older. In that respect, it is purely academic as to what we do. The bill itself specifies on page 16 and over on page 17. It was amended in the subcommittee print on page 7 line 10 to insert 16, years of age or older so that there would be no misunderstanding as to what was actually meant.

Mr. **Sarasin**. In this first paragraph on page 10 of your statement, Mrs. Rivlin, you say that:

> Sustained highly expansionary general fiscal and monetary policies or special employment-creating policies are probably needed to achieve the goals of the bill within a few years, unless there is much strength in the private sector than is suggested by any current evidence or recent economic projections.

Now that I read it again, I ask the question, are they desirable? Should they take to sustained highly expansionary general fiscal and monetary policies? I guess you are not in a position ——

Mrs. **Rivlin**. No, I am not in a position to comment on that. Rather, I think, as all our responses on the subject have pointed out, the Congress really does have to choose among different objectives for the economy, one of which is lowering the unemployment rate. Another important objective is price stability.

Our role at CBO is to take as much information as we can find from all sources on what the risks are on both sides. It would seem with the present rather high unemployment rates, that the risk of rekindling inflation by a somewhat more expansionary policy might not be very great in the short run. But as one goes to larger and larger expansion and stimulus of the economy, clearly the risk of inflation rises.

Mr. **Sarasin**. Then you would agree that we have to be very careful as to the inflationary aspect of anything we do in attempting to get the unemployment rate reduced?

Mrs. **Rivlin**. I think that there are two things that you have to contemplate, both of which are difficult. One is the importance of the two goals of reducing unemployment versus price stability. People differ on which goal they want to give priority to or which they are most worried about. But even with a firm view of which of these two goals you think is the most important, there is the additional problem of a large measure of uncertainty on what the effects of specific policies will be.

It is especially difficult right now for economists to predict anything about the price level and how it is affected by fiscal and monetary policies because the experience of the last few years has been unusual. Nobody knows how permanent the inflationary changes which have shown themselves in the last few years will be.

Mr. **Sarasin**. Have you had the opportunity to try to take into account the shortages of supply that may exist in the future and what affect that will have on our own economy, the economy of adequate energy, adequate food? Have any projections been made?

Mrs. **Rivlin**. Not specifically on that, no.

Mr. **Sarasin**. Are there any general comments you could make on that subject?

Mrs. **Rivlin**. No, I don't think so. It is very difficult to pin down questions on shortages of materials right now because the economy is still operating very well below capacity and with a high unemployment rate and high proportion of our capacity underutilized. Therefore, shortages in the short run, barring some peculiar outside development such as oil, for instance, don't seem very likely.

But people certainly differ on how rapidly you could expand the economy without running into some of the same kind of material shortages that have been experienced in other periods of rapid growth.

Mr. **Sarasin**. Thank you very much.

Mr. **Daniels**. Mr. Gaydos.

Mr. **Gaydos**. I will make my question very short. Director Rivlin, do you share my concern that the bill addresses itself as presently formed to a situation of great exigency? When we talk about 3 percent unemployment rate, obtained in 4 years, are we saying in effect that it is an emergency situation or do you feel like some of our prior witnesses that say we should strengthen our antitrust section of the existing law and do other things and chip away at the unemployment a half percent each year? Are we going after the pie in the sky or is our bill unrealistic?

Mrs. **Rivlin**. I think there is no question that the current unemployment rates are much too high and I think one could regard this as an emergency situation. It seems to me that the efforts that this bill represents—to think seriously about targets and about the future and how we can reduce unemployment rates—are very important ones.

The exact target that one should aim for is a matter of considerable question. One question that I would raise about it has to do with the inflationary rise, where I think there is such uncertainty. There is reason to think that lowering the unemployment rate, over a period of 4 years, to 3 percent for the whole labor force might cause a very significant new inflationary pressure. I think the Congress has to weigh those options.

Mr. **Gaydos**. Then you don't share the views that have been repeatedly suggested that why worry about inflation. You don't have a country if you don't take care of this in a reasonable period. You don't share that concern?

Mrs. **Rivlin**. I share both concerns. I think the task before the Congress is a very delicate one of trying to find ways of moving the economy toward full employment and to greater price stability. I don't think one can argue that only one of these goals is important.

Mr. **Gaydos**. You mentioned in your concern about displacement. You have run a comparison between structural displacement and countercyclical displacement in your statement.

Mrs. **Rivlin**. I was drawing a distinction between two objectives of a public employment program that have been suggested and, indeed, put into practice in some periods. One is using public employment to alleviate special and permanent employment problems of some groups. They are always at the bottom of the heap. Public employment is an approach to improving the employment rates of those groups and their ability to hold better jobs.

Mr. **Gaydos.** Aren't we doing that with revenue sharing today?

Mrs. **Rivlin.** I wouldn't think so. What I mean by a structural unemployment program is one that is very carefully designed to give the employees greater skill and greater upward mobility in future jobs than they have now. This is contrasted with a cyclical public employment program which is designed merely to fill a temporary gap, to give people jobs while the economy is in bad shape, with the hope they won't stay in the public jobs very long.

Mr. **Gaydos.** Title 2 in CETA was what you suggested and I would have to presume that you would be able to support an expansion of CETA unquestionably. It does exactly that. Title 2 provides for structural approaches to the structural deficiency, training a man and upgrading him.

Mrs. **Rivlin.** I am not saying this is bad.

Mr. **Gaydos.** We have had problems with the Office of Management and Budget every time we make an attempt to expend reasonable sums in that area. It seems it is unacceptable and consequently, we find sensational and fantastic proposed increases in things like foreign aid and things like that, but nothing for CETA. It comes from your office.

Mrs. **Rivlin.** It doesn't come from my office. It comes from your colleagues on the Budget Committee who have voted that way.

Mr. **Gaydos.** Let me ask you a little about WPA. We had WPA some 35 or 40 years ago. What kind of jobs were those, countercyclical or structural?

Mrs. **Rivlin.** I think that WPA was mainly regarded as a countercyclical program. It was to get anyone who was unemployed back into some kind of a useful job.

Mr. **Gaydos.** Do we have much problem with displacement? I think some people took the same work that you are going to have these people doing with the government. We had artists doing great paintings. We have paintings that were done by artists which today are very valuable and that were paid for at very low wages.

Getting back to that basic proposition, I submit for your sincere consideration, is the WPA program that bad?

Mrs. **Rivlin.** I think that the WPA program should be cited as an example of a successful program in the sense that it put a lot of people to work. It produced a lot of useful things.

Mr. **Gaydos.** Would it be so bad if we took the concept of WPA and made it more current and included a trained professional engineer to provide people with jobs? When we had the 50,000 people laid off at Boeing in Seattle——

Mrs. **Rivlin.** I am not saying public employment is wrong or even right. It is a tool which has uses. All I was trying to do was point out that before one institutes a public employment program, the Congress should think seriously about what it wants it for. If it wants the program mainly to get people working, with the intention that they will return to the private economy as quickly as possible, then it should be designed to facilitate that objective. If it is thought to be a more permanent training program to improve the skills of the people in the program, it probably has to be considered as a longer-term, and a more expensive project per job and that is a different kind of objective.

Mr. **Gaydos.** I would like to end my interrogation of you on that note because I just conclude as a reasonable man that you support the concept of this legislation and you said it so adequately and I wish I had said it so well. I want to thank you for supporting the concept in this bill.

Mr. **Daniels.** The gentleman from California, Mr. Hawkins.

Mr. **Hawkins.** Mrs. Rivlin, on page 9 you make the statement that:

> It would take an extremely rapid rate of growth to get from today's 7.5 percent unemployment rate to a rate consistent with three percent adult unemployment in 4 years or less, even if adults are defined to include only those 20 years and over.

I would like to address the first part of that.

Would you care to indicate why you use the phrase "extremely rapid rate of growth"? How do you define an extremely rapid rate of growth in terms of the current situation, the recovery period from the deepest recession we have seen since the Great Depression? What is an extremely rapid rate of growth?

Mrs. **Rivlin.** The rate of growth now being projected by the administration, for instance, is 6 percent sustained growth. That might not be characterized as extremely rapid, but it is certainly high by historical standards. We have not normally been able to sustain a rate of over 6 percent for several years when coming out of a recessionary period. That doesn't mean that we can't. But at a rate of growth of around 6.3 percent, we will not be anywhere near our target in 4 years. My only point is if we are going to get to our target, we have to go faster than that or use some other means.

Mr. **Hawkins.** Are you comparing this recovery period with previous recovery periods and what rate was produced during other recovery periods, keeping in mind this is the worst we have ever had perhaps since the great depression.

You reflect back on what the past experience has been, and the past experience of this recession was also quite different. Are you advocating a 6 percent rate as being an acceptable one for a recovery period?

Mrs. **Rivlin.** I am not advocating anything. I was making a factual statement and I don't think this is controvertible. It would take a high rate of economic growth to reach the target in your bill. Surely you don't disagree with that?

Mr. **Hawkins.** What rate are you suggesting is needed. You say an extremely rapid rate of growth is a conclusion which you have reached. What is too rapid? What do you suggest as being a growth which is believed to be necessary for a complete recovery and one which would get us, let us say, closer to 3 percent between now and 1980? What projections would you make then?

Mrs. **Rivlin.** To get to 3 percent of the entire labor force within 4 years would take a rate of growth—we can calculate this for you—that is substantially above that which we have sustained in past recovery periods. It would have to be around 7 percent for the entire period.

Mr. **Hawkins**. Around 7 percent. You think that is just not feasible to accomplish?

Mrs. **Rivlin**. I think it might be feasible. I am sure it is feasible. The question is: Would it generate inflationary pressures that one would regard as too high? It is a question of balancing the risk.

Mr. **Hawkins**. You seem to suggest that we are on a brink; that we are very, very close to excessive demand as compared with goods and services. Are you factoring in the production gap at the present time at least $200 billion that we are off in production? Are you considering unused production capacity or are you considering a lag in wages? Is there any indication that there is a lot of money in there that is going to chasing prices between now and the very near future that would cause us to have any threat of an overheating economy? What support do you have for this great inflation fear as opposed to some reasonable solution of unemployment?

Mrs. **Rivlin**. It depends on how long run we are talking about. If you are talking about the next year or two, it would seem to us that the economy is clearly still in a slack period, the unemployment rate is high, capacity is underutilized. I don't think you will find in this statement support for the view that we are in a situation of excess pressure from the demand side right now. But unless we have high rates of growth in the range of 7 percent beyond the next couple of years, you would not get to your target.

The question is: If we have sustained levels of economic growth in the range of 7 percent and the labor market tightens, do we then risk escalating inflation? I think there is evidence that that is something to worry about.

Mr. **Hawkins**. At the present time is there any evidence on which to base any policies or should we refuse to address ourselves to this problem on a Federal basis or otherwise? Are we in a position that we need such fine balancing against high levels of unemployment based on the threat of inflation? When was the last time that we had such a threat? Have we had such a threat since 1969, for example, which was 7 years ago? Have we had a threat during that period of time? When did we last have such a threat which would have caused us to do the damage to the economy that is now being done that seems to us, you and a few others, not everybody, to make us hesitate to do what is right?

Mrs. **Rivlin**. I am not hesitating to do what is right. I am simply cautioning that inflation, which was at record levels in the last 2 years, is a problem that everyone ought to think about. Economists really have to be in all honesty, quite cautious and uncertain about what would happen if you have sustained rapid growth in the economy as you approach levels of unemployment of 4.5 or 4 or 3.5 percent.

Mr. **Hawkins**. Isn't that based on an assumption that the cause of the inflation is due to high levels of unemployment?

Mrs. **Rivlin**. No, I don't think so.

Mr. **Hawkins**. Unless it is, then why don't attack a rate because——

Mrs. **Rivlin**. I am not saying we have excessive demand pressure right now. We have an inflation rate which is greatly improved from last year, but still at higher levels than any of us would like probably. Why that is occurring is perhaps a result of past history. It would seem to be caused by a couple of factors. One is that the past rates of inflation are not attributable to demand but largely to exogenous forces, such as relative increases in oil and food prices working their way through the economy. And presumably it is partly attributable to the expectations of inflation—the fact that everyone is conscious of inflation and people have built that into their price behavior and their wage demands. But at the moment, inflation does not seem to be largely from current demand pressure.

Mr. HAWKINS. Wouldn't it be better to attack the causes like energy costs, the monopolistic practices, the other things that you mentioned and perhaps some you didn't mention. Wouldn't it be better to attack the direct causes rather than to attack the employment factor alone?

Mrs. RIVLIN. I am not attacking anything.

Mr. HAWKINS. You are saying that if we move too fast on employing people, we might rekindle inflation and that can only be a conclusion that it is the cause of inflation or it might be a predominant cause.

Mrs. RIVLIN. No, I don't think so. I think you are misreading what I am saying. Let me say this. I think the inflationary aspects in the economy are an important element that we have to deal with and we have to deal with them on several different fronts. One way is to consider how to reduce those biases, to reduce the influence of administered prices. Another is how to bring unemployment rates down, which is, I think, why your bill is designed the way it is. Your bill uses all kinds of different tools, both the normal tools of fiscal and monetary policies and those such as public employment which might well be adopted, as we said in the statement, to create more jobs per billion dollars of Federal expenditures with less inflationary pressures.

The only thing I am saying about the inflationary danger is, that economists have to point out that, with several years of sustained economic growth to bring unemployment into the 4 percent range, there is a risk that the inflation will rekindle.

Mr. HAWKINS. In view of the present production gap, do you see us reaching anything like a normal rate of growth between now and 1980, for example?

Mrs. RIVLIN. A normal rate of——

Mr. HAWKINS. Meaning in the neighborhood of 4.4 percent, which is a reference that you have made in your statement. In other words, do you see us closing that gap?

Mrs. RIVLIN. Yes, sir.

Mr. HAWKINS. Do you see wages moving ahead of productivity and prices between now and 1980?

Mrs. RIVLIN. It depends on what the Congress does.

Mr. HAWKINS. Heavens, I hope not.

Mrs. RIVLIN. I would think you would hope it would.

Mr. HAWKINS. I don't think it is going to move that fast unless we have some reason to get a bill passed. I don't think the Congress is going to move faster merely because the administration isn't going to move any faster.

Mrs. RIVLIN. A 6 percent growth sustained over several years to 1980 would certainly get us into the 4.5 percentage range.

Mr. HAWKINS. I understand we have a time problem. Let me just simply ask you whether or not you are familiar with the testimony of Mr. Tobin and others as quoted in Business Week in February 2, 1976? Prof. James Tobin at Yale University who, as you know, is a former president of the Economists Association, said that after coming out of the steep recession, a 6 to 7 percent rate is too low a target to shoot for, and given the low level of capacity, the economy can go 9 percent without any inflationary impact. The same views were expressed by Walter Heller who said that the economy should grow at a higher real economic growth rate than 6 to 7 percent. The same corroboration was made by Otto Eckstein, by Arthur Okun and by a host of others.

I think you would agree that these men and women are not so visionary that they would suggest a rate of growth that is highly inflationary. But, I think they are rightfully reading the fact of the current situation in suggesting that having been given the type of recession that we had, we need to do better in the recovery than we have done in the others. I think also that in your statement when you talk about the experience—which I didn't get an opportunity to get to on page 10—in the last 30 years, you speak of that experience with a little over 3-percent growth, and you fail to understand I think really what H.R. 50 is all about.

If we felt that we weren't ready to match the economic performance or to use the same techniques that have been used for the past 30 years and to maintain that type of growth rate, we wouldn't have introduced H.R. 50. But, I think that you have to admit that type of approach has led to five recessions and that growth rate is an average in which we have maintained both good times and bad times. H.R. 50 addresses itself not to that past experience, but to what we must do if we intend to actually have a durable recovery.

I think that is the main difference between your points of view and ours. It seems to me that you are reading the past history and saying to do better than that is somehow an exception and somehow extraordinary. Our position is that we have got to do better than what we had done in the past if we expect to have a durable recovery.

We have submitted to you some questions on what projections you make in the variables that you used in your model. While your report to the Joint Economic Committee cannot be made until mid-May, I would hope that we would have answers to the questions a long time before so that we can address ourselves to the projection you make to get us to some point by 1980 and what provisions we think are needed to get us to a more acceptable rate of unemployment by 1980, if we can call any rate of unemployment acceptable.

My main question is in that connection when can we expect answers to the questions we have submitted to you?

Mrs. RIVLIN. Quite soon. Let me just take this opportunity to say a little about the role of the Congressional Budget Office and how we can be helpful to a committee such as this. We cannot take a position on a particular bill or a particular growth rate and I am not going to do so. We can only be useful to the Congress in answering questions such as: what do you think would happen if the economy did this or that? And we have to, in that context, say what we think is the most likely outcome. We also have to alert you to the fact that economic analysts are not united in their assessment of some of these factors. That is what we are prepared to do and can do.

Mr. **Hawkins**. But I think your reports and statements are being quoted as being in opposition to even the feasibility of achieving a sufficient growth rate to get us down to 3 percent or under by 1980. Inasmuch as you are being quoted in that regard, it seems to me it does affect policies and it does affect the handling of legislation when statements that we disagree with are made without supporting evidence.

We don't know what to argue about because we don't know what rate of growth you anticipate.

We are talking about H.R. 50. So it does affect us. Let us point out what models you use and what you put into the computer to get out the results that you get so that we will have something to address ourselves to in terms of what our projections are. Then, if you can convince us that we are wrong, we certainly want to be convinced. But, we want to have the facts and not just beautiful statements that become meaningless because they are not backed up.

Mrs. **Rivlin**. We would be happy to describe the way we make statements of the relationship between economic growth and inflation.

Mr. **Hawkins**. Thank you, very much.

Mr. **Daniels**. Thank you, Mrs. Rivlin.

This concludes today's hearing. I would like to say that Prof. Robert E. Hall, the professor of economics at Massachusetts Institute of Technology, who was scheduled to appear here today has been put over to tomorrow morning. He will be our first witness.

We will adjourn today and reconvene tomorrow morning at 10 o'clock in this room.

[Whereupon, at 12:30 p.m., the hearing was adjourned, to reconvene at 10 a.m., Friday, April 9, 1976.]

FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

FRIDAY, APRIL 9, 1976

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MANPOWER, COMPENSATION, AND
HEALTH AND SAFETY
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 10:25 a.m., pursuant to recess in room 2175, Rayburn House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Members present: Representatives Daniels, Hawkins, Gaydos, Beard and Sarasin.

Staff present: Dan Krivit, counsel; Saralee Schwartz, research assistant; and Nat Semple, minority counsel.

Mr. DANIELS. The Subcommittee on Manpower, Compensation, and Health and Safety will come to order.

This morning we continue with hearings on our bill, H.R. 50, the Full Employment and Balanced Growth Act of 1976. Our first witness is Prof. Robert E. Hall, economist of the Massachusetts Institute of Technology.

Welcome, Mr. Hall.

STATEMENT OF ROBERT E. HALL, ECONOMIST, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. HALL. Thank you, Mr. Chairman. Would you prefer that I read the entire statement, or summarize?

Mr. DANIELS. Mr. Hall, we leave that entirely to your judgment. If you desire to submit your statement for the record, I will ask unanimous consent that it be printed in full and you may proceed to summarize and highlight the points you desire to make.

Do you desire to submit the statement?

Mr. HALL. Yes, I do.

Mr. DANIELS. I will ask unanimous consent that this statement of the witness, Professor Robert E. Hall, be incorporated in the record at this point, in full.

[Prepared statement of Robert E. Hall follows:]

PREPARED STATEMENT OF ROBERT E. HALL, PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

I am grateful for the opportunity to present an appraisal of the Full Employment and Balanced Growth Act. Since the U.S. economy is still operating far below its potential, there is no question about the central importance today of the problems that the Act proposes to solve. Any improvements in federal economic policy-making that will help prevent the repetition of the devastating economic experience of the past two years will be welcomed by every citizen of the United States.

The Full Employment and Balanced Growth Act rests on two basic premises about the American economy and the role of federal policy-makers within it. First, the Act declares that the recent unfavorable performance of the economy is in large part attributable to deficiencies in national economic policy. It creates new bodies and procedures for formulating economic policy to avoid these shortcomings in the future. Second, the Act establishes a clear numerical goal for employment policy: Unemployment is not to exceed 3 percent within the adult labor force. Policy makers are to achieve this goal through aggregate monetary and fiscal policy, and through supplementary manpower and related programs. I support many of the reforms embodied in the Act for improving the performance of federal economic policy. In this appraisal, however, I shall concentrate on the second premise, which bears on issues of primary professional concern to me.

With present structure of the labor market, and with present knowledge about the potential impact of structural reforms within the power of the federal government, the unemployment target of the full Employment and Balanced Growth Act is unrealistically low. Unemployment rates in the range of 3 percent among adults, or 3.8 percent of the total labor force, are definitely not permanently sustainable, though they can be achieved for brief periods. In the past 20 years, the adult unemployment rate has reached 3 percent only in the three peak years, 1966, 1968, and 1969. The exceptionally tight labor markets of those years touched off a burst of wage inflation whose effects are still being felt today. Recognizing that expansionary monetary and fiscal policies cannot by themselves sustain the low unemployment target, the Act also provides for structural manpower policies to make the target feasible in the longer run. In my opinion, the Act substantially exaggerates the potential contribution of these programs, and may serve to discredit the genuine smaller contributions of such programs under more realistic goals.

At the present time, I believe it is unwise to adopt a single permanent target unemployment rate. Certainly the target for the next two years ought to be well below the present high level. But I believe that a target as low as the 3 percent in the Full Employment and Balanced Growth Act would raise false expectations about the performance of the U.S. economy. The disappointment of these expectations would only add to the prevailing mood of skepticism about government policies in general, and about the conduct of economic policy in particular.

ISSUES IN DETERMINING THE TARGET UNEMPLOYMENT RATE

One of the most striking features of the Full Employment and Balanced Growth Act is its establishment of a specific numerical target for the unemployment rate—unemployment is not to exceed 3 percent among adult members of the labor force. The limitation to adults has escaped general attention, and the Act is usually thought to mandate a target of 3 percent of the total labor force. The implied target for the total unemployment rate is in fact closer to 4 percent, as the following data reveal:

[In percent]

Year	Adult unemployment rate	Total unemployment rate
1965	3.8	4.5
1966	3.0	3.8
1967	3.1	3.8
1968	2.8	3.6
1969	2.8	3.5
1970	4.1	4.9
1971	5.1	5.9
1972	4.7	5.6
1973	4.0	4.9
1974	4.7	5.6
1975	7.8	8.5

The Act requires that labor market conditions like those of 1966 be made permanent. Since the target was reached in 1966 and surpassed in 1968–69, there is little question of the feasibility of the target in one year or transitory period. In fact, the target could be reached in much less than the four years permitted by the Act. The substantive question is the ability of the economy to sustain such tight labor markets year after year. The great majority of economists would agree that exceptionally tight markets cause wages to rise faster than they would otherwise. The logic of this view is quite persuasive—tight markets mean that employers bid against each other for scarce labor, and workers are able to select the best paying job from a wider set of alternatives. The view has been sustained in countless research studies using a great variety of data on wages. Among economists, many supporters of the Full Employment and Balanced Growth Act would concede the inflationary implications of the unemployment target, but would argue that the inflation could be tolerated or offset by other policies. However, another influential body of opinion holds that an unemployment target of under 4 percent is not just inflationary but is unsustainable for more than a few years. According to this view, wage inflation would worsen every successive year that monetary and fiscal policy achieved the target, and sooner or later no further expansion would be adequate to maintain such tight conditions in the labor market. Adherents of this view point to the experience in the late sixties, when four years of unemployment near or below the target level apparently provided wage inflation with a momentum that carried it through the early seventies even in the face of significantly higher unemployment in 1970 and later. Those economists who believe that 4 to 5 percent unemployment is sustainable will concede that the momentum of wage inflation cumulates during periods of unemployment much below that level.

Estimates of the unemployment rate below which wage inflation begins to develop momentum differ somewhat, but none to my knowledge that include the period 1966–1973 suggests that it is much below 5 percent or much above 6 percent. A reasonable single estimate is 5.8 percent, or 5 percent of adults, though it should be recognized that there is a good deal of uncertainty about its precise value and that it has grown over time in the past ten years. The growth was attributable to shifts in the composition of the labor force toward groups wih higher unemployment rates (mainly the young) and perhaps to certain trends in the structure of employment and levels of unemployment benefits. Estimates also differ for the rate at which wage inflation accelerates when the unemployment rate is pushed below the sustainable level, but a reasonable estimate seems to be one-half percentage point of additional wage inflation for each full year during which the unemployment rate is held a percentage point below the sustainable level. As a rough illustration of the working of this process, consider the following example: Wage inflation in 1976 apparently will be about 8 percent. If the economy achieved the goal of the Full Employment and Balanced Growth Act in 1977 and subsequent years, wage inflation would be 9 percent in 1977, 10 percent in 1978, 11 percent in 1979, and 12 percent in 1980. These projections do not include the extra inflation that might accompany such a large discontinuous drop in the unemployment rate. The Act permits a much slower movement toward the target, in recognition of these adjustment costs. These projections are roughly consistent with what happened in 1966–69. Extrapolation beyond four years is dangerous, because there has been no comparable historical experience of very tight labor markets for more than four years.

The weight of the evidence suggests that the adoption of the Act's unemployment target and its achievement with expansionary monetary and fiscal policy alone would commit the United States to continuing high rates of wage inflation, inflation that would worsen progressively. The Act relies on two additional types of policies to protect the economy against this inflation: Measures that reduce prices relative to wages, and structural policies in the labor market that reduce the sustainable unemployment rate. In the first category, the Act asserts that expansion itself will reduce costs relative to wages by increasing supply. Further, it mandates policies to limit food prices and to reduce monopoly power. Whatever their magnitude, all of these have only a transitory effect on price inflation relative to wage inflation. No matter how aggressively they are pursued, within a few years the long-term historical relation between wage and price inflation will re-establish itself, with prices rising between two and three percentage points more slowly than wages. For the long run, the Full Employment and Balanced Growth Act in effect puts full reliance on structural manpower policies to eliminate the otherwise inflationary effect of its low target for the unemployment rate.

STRUCTURAL POLICIES IN THE LABOR MARKET

The Full Employment and Balanced Growth Act calls upon structural policies to reduce the sustainable unemployment rate from nearly 6 percent to below 4 percent of the total labor force, or from 5 to 3 percent for adults. It mandates two types of programs with which the federal government has had a good deal of experience since 1961: aid to depressed regions and a variety of programs directed specifically at youths. There is no question about the magnitude of the problems addressed by these programs. For example, if unemployment among teenagers could be reduced to the average level for adults, the sustainable unemployment rate for all workers would fall by nearly one percentage point. Youth unemployment is a complex problem stemming from the combination of limited entry-level opportunities for jobs with real futures and from the turnover associated with the high level of personal freedom granted to the young today. Programs that get young workers started on promising careers simply have not worked out yet, and the substantive obstacles to their large-scale implementation are very serious. Programs with the more modest goal of providing summer employment for teenagers have been successful and ought to be expanded, in my view. In any case, reductions in unemployment rates for youths can do very little to help in achieving the Act's unemployment target, which relates to adult unemployment alone.

The principal structural policy proposed by the Act for the adult labor force is the creation of jobs in federally operated public employment projects and in private nonprofit projects. Direct employment certainly can reduce the unemployment rate. The central question is how much of this is a reduction in the sustainable unemployment rate and how much simply adds to inflationary pressure in the labor market. Suppose we knew the answer to this question; that is, we could specify what fraction of public jobs were non-inflationary. Then each million public jobs would reduce the sustainable unemployment rate by one percentage point (assuming a labor force of 100 million, a level that will be reached in the next few years), multiplied by the non-inflationary fraction. Further, the number of public jobs needed to bring about a two percentage point reduction in the sustainable unemployment rate is simply the non-inflationary fraction divided into two. The value of the non-inflationary fraction is a matter of debate. One extreme view holds that the fraction is one—every public job reduces sustainable unemployment by one individual. Then the Act's target could be achieved by creating two million public and nonprofit jobs. The other extreme view holds that public demand for workers is just as inflationary as demand from any source, and asserts that the fraction is zero. Under this view, no public employment program of any size could achieve the target.

There is persuasive evidence against both extremes. On the one hand, public employment tends to bring workers from groups with high unemployment rates into the labor force, even if they are not hired directly by the program. Similarly, the tightening of the labor market accomplished by public employment increases quits among workers who are dissatisfied with their jobs and take advantage of improved conditions to find better jobs. In addition, past experience with employment programs suggests that some of the workers hired under them will not come from high unemployment groups, in spite of the intent of the program. Administrators of the programs face incentives to maximize the productivity of the workers they hire, and generally the most productive workers are the least subject to unemployment. This problem is even more acute in labor market programs supporting private employment. To the extent that the workers hired are those with good prospects elsewhere, a public employment program is inflationary. In view of all of these influences, it appears that the non-inflationary fraction is not above one-half, and could be even lower. On the other hand, the non-inflationary fraction is certainly greater than zero, because public employment programs can have a favorable effect on the composition of employment, biasing it toward groups with high unemployment rates. The Act contains some specific provisions with exactly this intent.

In my opinion, the evidence supports the view that between a quarter and a half of the reduction in unemployment achieved by a public employment program is non-inflationary. This implies, in turn, that between four and eight million public jobs would be required to achieve the 2 percent reduction in the sustainable unemployment rate that the Full Employment and Balanced Growth Act mandates. At a gross cost to the taxpayers of, say, $10,000 per year for each job, the total gross cost of the public employment provisions of the Act would be $40 to $80 billion per year. The net cost would be less because the cost of unemployment compensation and income maintenance would fall by perhaps $10 billion.

On the basis of these calculations, I have to conclude, regretfully but firmly, that the feasibility of the Act's structural program is very much open to question at this stage. Its open-ended guarantee to underwrite the employment of as many workers as necessary to maintain the target rate of unemployment could require an infeasibly large expansion of the federal budget. Public employment on the scale required by the Act would surely displace many other essential social expenditures. It poses a particular threat to programs that provide income to individuals who are unable to work and who would not benefit from an employment program on any scale.

CONCLUSIONS

The Full Employment and Balanced Growth Act is a move in the right direction, but it is too large a move. It establishes a target for unemployment that is simply infeasible in today's economy. There are two dangers in setting such an unrealistic target. First, the actual performance of the economy may fall short—unemployment may remain above the target in spite of the best efforts of policy makers. Then the adoption of the target invites further disillusionment about the capabilities of government. Second, the attempt to achieve the unattainable may bring an accelerating inflation and an eventual popular reaction against such expansionary policies, possibly terminating in deep recession. At this stage, the country would be better served by a more judicious expansionary policy.

Mr. HALL. Mr. Chairman and members of the subcommittee, I am grateful for the opportunity to present an appraisal of the Full Employment and Balanced Growth Act. Since the U.S. economy is still operating far below its potential, there is no question about the central importance today of the problems that the act proposes to solve.

Any improvements in Federal economic policymaking that will help prevent the repetition of the devastating economic experience of the past 2 years will be welcomed by every citizen of the United States.

I support many of the reforms embodied in the act for improving the performance of Federal economic policy. In this appraisal, however, I shall concentrate on the unemployment target established by the act, which bears on issues of primary professional concern to me.

With present structure of the labor market, and with present knowledge about the potential impact of structural reforms within the power of the Federal Government, the unemployment target of the Full Employment and Balanced Growth Act is unrealistically low.

Unemployment rates in the range of 3 percent are definitely not permanently sustainable, though they can be achieved for brief periods.

Recognizing that expansionary monetary and fiscal policies cannot by themselves sustain the low unemployment target, the Act provides for structural manpower policies to make the target feasible in the longer run. In my opinion, the act substantially exaggerates the potential contribution of these programs, and may serve to discredit the genuine smaller contributions of such programs under more realistic goals.

At the present time, I believe it is unwise to adopt a single permanent target unemployment rate. Certainly, the target for the next 2 years ought to be well below the present high level. But I believe that a target as low as the 3 percent in the Full Employment and Balanced Growth Act would raise false expectations about the performance of the U.S. economy. The disappointment of these expectations would only add to the prevailing mood of skepticism about Government policies in general, and about the conduct of economic policy in particular.

My testimony then reviews material that appeared in Dr. Rivlin's statement as well as about the relationship between the adult unemployment rate and the total unemployment rate. This is subject, of course, to the question which I understand is still open about the exact definition of an adult in terms of the act.

Mr. **Hawkins.** May I interrupt at that point because reference is made to the definition of adult as being unclear in the act. I think I stated yesterday as I have stated several times, and I think the witness should also be informed that when the bill was referred to this subcommittee, that definition was clearly stated to mean those 16 years of age and over.

I think there should be no confusion in these hearings that we have in any way confused that definition. I interrupt at this point only to be informative and not to debate the issue, but simply to say that rightly or wrongly, the bill does define adult as being those 16 years of age and older.

Mr. **Daniels.** I might further state that the staff has what we refer to as a blue sheet on this bill, and the definition of adults is clearly set forth in this blue sheet. If you desire a copy of it, Professor Hall, I would be glad to let you have it.

Mr. **Hall.** That would only strengthen the point I make in my statement that I believe the goal set here is too low. Where I refer to a goal of 3.8 percent, it should be replaced with a goal of 3.0 percent, which I would regard as less sustainable than 3.8 percent.

In reviewing the performance of the United States economy in the recent past, since 1965, we find that the total unemployment rate reached its minimum in 1969 at 3.5 percent. That is below the 3.8 percent that I thought the act established, but well above the 3.0 percent that I now understand the act establishes as a goal.

In any case, I would conclude, at least with respect to the goal in the 3 percent range that it is a target that can be achieved. I don't want to be misunderstood in my testimony here.

It is not a question of whether it can be achieved with a sufficiently expansionary policy but the issue I want to address is whether it can be sustained; that is, whether the economy could continue to operate in the neighborhood of the target for several successive years and that is the question that I, as a student of this question, am very skeptical about.

The great majority of economists would agree that exceptionally tight labor markets cause wages to rise faster than they would otherwise.

Furthermore, and this is a point which I want to emphasize in my testimony, an unemployment target of under 4 percent is not inflationary but is unsustainable in the sense that the inflationary pressure accumulates as the unemployment is held below a certain level which I refer to as the sustainable unemployment level.

Adherents of the view that I advocate point to the experience in the late 1960's when 4 years of unemployment near or below the target level apparently provided wage inflation with a momentum that carried it through the early 1970's, even in the face of significantly higher unemployment in 1970 and later.

Estimates of the unemployment rate that I refer to as the sustainable unemployment rate vary for today but a consensus of economists who have studied this carefully, I think, would say it is between 5 and 6 percent, and probably closer to 6 percent than to 5 percent.

I have used a number for today of 5.8 percent. I recognize that that number is too high. We would all agree that that number is too high, but I think we need to recognize that that is the number.

I would like now to refer to a page that I circulated today, which is not in the testimony itself but will appear in the revised version of my testimony. It tries to address this question of whether it is true that tight labor markets and low unemployment rates bring about inflation.

Let me emphasize that when I refer to inflation I refer to wage inflation, not to price inflation. There have been many important episodes when price inflation and wage inflation were different.

One of the misunderstandings between economists and others on this issue is that the point that is being made here refers to wage inflation. We must study separately the relationship between price inflation and wage inflation.

The historical record from 1948 to 1975 appears in this supplementary sheet and I read this as showing very clearly that when the unemployment rate drops below the sustainable rate, or is pushed below, by aggregate policy or whatever reason, we find that wage inflation becomes higher than it was in the previous episode.

I have identified four episodes of more than 1 year when we tried to operate the economy at an unemployment rate below the sustainable level. In every case we achieved it. There was no disaster in the economy.

But I point to the third column where we can see 1951 is the clearest case. We heard yesterday that there was a mystery about this period because it was a period of low unemployment and low inflation. But that was looking at the wrong inflation variable with respect to the proposition that has been established by economic reserach.

It was wage inflation that that proposition referred to. And look at what happened to wage inflation in the Korean War period, 1951 to 1953. It jumped well above what had been before—not well above what it was in 1948. But again, 1948 was a year of very low unemployment.

We had another period, not as sharp as that one, the 1955–57 period where the rate of wage inflation increased from the 3.2 percent level in 1954, 3.5 in 1955, 5.9 in 1956, 5.7 in 1957.

Then we entered the long period of wage stability. Wage stability is a point of approximately 2 to 3 percent increase because prices systematically rise less quickly than wages.

And then, the most informative period with respect to this bill was the 1964 to 1970 period, when the unemployment rate dropped to a very low figure and reached its minimum, as I have said before, in 1969 with 3.5 percent, but it was a long period of sustained low unemployment.

The bill, as I interpret it, wants to re-establish the labor market conditions of that period. But I point to what it did to wage inflation. We saw a smooth increase of wage inflation throughout that period.

It actually reached its peak in 1968, but fell back only slightly. What happened during that period is that a new base was set with respect to wage inflation in the 7 percent range. And we have been living with that base ever since.

The 1971 recession put us only three-tenths of a percentage point above what I interpret the sustainable unemployment rate in that year to be, 5.6 percent. That recession did almost nothing to reduce this base level of wage inflation.

And then we went through another expansionary period, the fourth expansionary period, which was 1972 to 1974. It was nowhere near as sharp an expansion and nowhere as tight a labor market during that period.

But in 1973, the average unemployment rate dropped below 5 percent over the year and, once again, wage inflation accelerated. The acceleration that took place during that period is somewhat more than we would ordinarily have expected and I would attribute that to the fact that prices were rising relative to wages during that period, primarily the oil price increase.

That added further to this base level of wage inflation. But primarily, I would attribute today's rate of wage inflation—the wages for 1976 will probably increase by approximately 8 percent—to the establishment of the new base of wage inflation during the 1960's, during the period which the act attempts to emulate by re-establishing such a tight labor market.

I read this record as unambiguous evidence in favor of the proposition that tight labor markets cause not just high rates of wage inflation but increasing rates of wage inflation. I don't think that we could have sustained the 1960's period for too many years more than we did because of this acceleration of wage inflation.

Many of the problems of the early 1970's even before November 1973, I believe, are attributable to the wage inflation that began as a result of extremely tight labor markets in the 1960's.

I conclude from this that—I think the act agrees with this—it would be inappropriate to use monetary and fiscal policy to achieve labor market conditions of the 1960's without trying to do something else to lower the sustainable unemployment rate, so that the second part of my testimony then addresses the issue of whether structural policies of the kind embodied in the Full Employment and

Balanced Growth Act can do something to improve the situation, that is, to make an unemployment rate in the 3 to 4 percent range sustainable.

The principal structural policy proposed by the act for the adult labor force is the creation of jobs in federally operated public employment projects and in private non-profit projects.

Direct employment certainly can reduce the unemployment rate. I will not take the position I believe other economists have that one loses all the employment through displacement effects and things like that.

I think well-designed programs can, in fact, achieve the reduction of the unemployment rate. But the question is how much of that reduction is simply the kind of reduction that you could achieve with aggregate policy, particularly monetary policy, and how much of it is simply the kind of reduction in unemployment that causes the wage inflation that I have just discussed, and how much of it is truly a reduction in the sustainable unemployment rate.

My impression, based on a fairly careful study of the evidence that I carried out several years ago, which I believe is still relevant, is that a substantial fraction of what can be achieved by the public employment program is very closely the same as what can be achieved by monetary policy.

Only between a quarter and a half of the reduction in unemployment brought about by legislation of this kind could be called noninflationary; that is, reduction in the sustainable unemployment rate. One can then compute the number of jobs required in order to get the reduction in the sustainable unemployment rate essentially by dividing by that fraction that I just referred to.

Unfortunately, the result of that is very large numbers. If the fraction is as low as a quarter, it takes four public service jobs to reduce the sustainable unemployment rate by one individual.

If the target is a reduction in unemployment of 2 million and the fraction is 4 then it could require 8 million public service jobs. I don't believe that the authors of this legislation anticipated that anything like 8 million public service jobs are what would be called for to achieve the goals of the legislation.

This computation gives numbers in the range of 5 to 10 million public jobs depending on the particular assumptions and the interpretation of the goal established by the act. It seems to me that that suggests that the magnitude of the program being discussed here is rather larger than I think was really anticipated when the legislation was prepared.

On the basis of these calculations I have to conclude regretfully, but firmly, that the feasibility of the Act's structural program is very much open to question at this stage. Its open-ended guarantee to underwrite the employment of as many workers as necessary to maintain the target rate of unemployment could require an infeasibly large expansion of the Federal budget.

Public employment on the scale required by the act would surely displace many essential social expenditures. It poses a particular threat to programs that provide income to individuals who are unable to work and who would not benefit from an employment program on any scale.

There is a large number of such individuals. It includes families where the logical activity of a single parent is taking care of the children and, therefore, is not a wage earner; it includes the disabled.

Reliance on public employment alone, especially such a large program, poses a danger to the other kinds of programs that we have to protect—those that supplement incomes directly.

The Full Employment and Balance Growth Act is a move in the right direction, and I feel personally strongly that we have not had enough expansionary policy. I don't want my remarks to be interpreted as supporting the position that the recession we just had was inevitable, that we couldn't have had a more expansionary program.

I think we should have had much more expansionary monetary policies than we did, and even today, I would endorse a more expansionary monetary policy.

Although the move is a move in the right direction, it is too large a move. It establishes a target for unemployment that is simply infeasible in today's economy. There are two dangers in setting such an unrealistic target.

First, the actual performance of the economy may fall short. Unemployment may remain above the target in spite of the best efforts of policymakers. Then the adoption of the target invites further disillusionment about the capabilities of Government.

Second, the attempt to achieve the unattainable may bring an accelerating inflation and an eventual popular reaction against such expansionary policies, possibly terminating in deep recession.

At this stage, the country would be better served by a more judicious expansionary policy.

Thank you, Mr. Chairman.

Mr. **Daniels**. Thank you, Professor Hall, for your testimony.

Professor, I think it is generally agreed upon that this country is having economic problems. What do you see are the shortcomings of the administration's coordination of long- and short-term economic planning goals?

Mr. **Hall**. As I see it, the major problem the economy faced was the increase in oil prices that resulted in a very confusing situation with respect to policymaking in 1974. I am, in some respects, sympathetic to the problems that were faced but I believe, in retrospect especially, one can see that we should have had a more expansionary monetary policy during that period.

We should not have permitted interest rates to rise as far as they did. We were misled by the notion that targets for the amount of money created should not respond to the determinants of the price level, especially those that are outside the system, outside wages, for example, the price of oil. On the contrary, we should have had a monetary offset in 1974 to the oil price increase.

Then, I don't think we would have had anything near the reaction we had in 1975. I interpret it as a lagged response to extremely tight monetary conditions in 1974. I am not an expert on the exact formulation of policy. I would rather not try to comment on the procedural reforms that might be required.

My professional expertise is in the areas of substantive economic questions, particularly inflation, unemployment, and what can be done to correct those problems.

Mr. **Daniels**. I notice your statement, which I read very carefully, did not deal with the marketing questions. Basically, do you deal with that part of H.R. 50, relating to the establishment of a minimum goal for employment policy that is not to exceed 3 percent within the adult labor force, which the bill would try to accomplish in a 4-year period of time?

I gather from your testimony that you are opposed to H.R. 50. Do you have an alternative program? Would you care to suggest to this committee any alternative legislation?

Mr. **Hall**. Mr. Chairman, I am not an expert in the actual formation of economic policy, and particularly not an expert in proposing legislation. I do think that important policy mistakes have been made, but I think I would rather leave it at that and not try to go beyond my professional expertise in this area.

Mr. **Daniels**. You do have some expertise in the area of unemployment. Specifically, how would you deal with the high levels of youth unemployment, problems of regional unemployment, and the hardcore problems of structural unemployment.

Mr. **Hall**. The most serious problem we face today is simply high unemployment in all categories. I think the first order of business should be an expansionary policy that gets us down to at least what I refer to as the sustainable unemployment rate.

That is, today we have 7.5 percent unemployment. I believe the great majority of economists and certainly myself, would favor, as I refer to in my testimony, a judicious reduction of the unemployment rate through expansionary aggregate policies to achieve an unemployment rate in the range of 5 to 6 percent.

Let me say, first of all, by far the most important policy we can use today is the kind of policy addressed in the first part of the act; that is, expansionary, monetary, and fiscal policy.

I would emphasize today particularly the importance of expansionary and monetary policy.

Mr. **Daniels**. You said in the course of your testimony an unemployment rate target of 3 percent can be achieved, but it could not be sustained. Specifically, why can't it be sustained for a long period of time?

Mr. **Hall**. The difficulty we had, as we found in the sixties was that wages began to rise faster and faster, as we pushed the unemployment rate below the sustainable rate—I gave a numerical example, which I did not refer to here. It appears in my statement.

If we went to approximately 4 percent unemployment, or 3.8 percent unemployment, it appears that that would generate approximately 1 percent of additional wage inflation each year.

So that, starting from 8 percent this year, we might have 9 percent in 1977, 10 percent in 1978, 11 percent in 1979. I think one can draw the conclusion from that that fairly soon we would begin to get a reaction against that kind of policy that leads to the kinds of rates of inflation that are present today in Great Britain.

And as this process proceeds we would become like a South American country. I don't believe that is the direction that the public wants aggregate policy to go in, so I believe quite strongly that one has to be judicious in pushing the economy beyond the kind of unemployment rate that historically appears to be the point at which this process of accelerating inflation is set off.

Mr. **Daniels.** In your judgment, can't we adopt any plans or economic policies with respect to production interest rates to curb such a rapid rate of inflation?

Mr. **Hall.** Mr. Chairman, I believe the only policy I have seen that can actually do that in the short run is controls, particularly wage controls. I don't believe wage controls are a good idea.

The legislation does not, as I understand it, mandate wage controls. I don't believe wage controls could possibly be a permanent solution. And I don't see other policies that I can point to today, expansionary policies, that would do anything but cause the economy to be on the historical track, and which would cause us to repeat the experience of the late sixties and go through the kind of policy problems that we had in the period from 1971 to the summer of 1973.

I don't foresee a repetition of the oil price increase but I certainly forsee a repetition of the kinds of problems that resulted in the adoption of price and wage controls in August 1971. The difficult period from 1971 through 1973, is the kind of period we would have under the adoption of the specific numerical unemployment target that appears in this legislation.

Mr. **Daniels.** I see nothing in this bill which recommends or advocates wage and price controls. I don't think that was the intent of the author. Are you in favor of tax incentives for private industry?

Mr. **Hall.** Are you referring to investment incentives?

Mr. **Daniels.** In other words, what incentives would you give to private industry to encourage them to expand, which would encourage employment opportunities.

Mr. **Hall.** Mr. Chairman, I don't believe any policies relating to the subsidy of private businesses really can affect the structural relationships I refer to. I oppose any kind of subsidy program. I oppose the investment tax credit particularly because I don't believe that those policies do anything but stimulate demand in the same way that we can achieve with much simpler aggregate policies, monetary and fiscal policies that have an aggregate effect.

I believe that it is an illusion that one can effect the relationship between unemployment and inflation through policies subsidizing either employment or investment. There is a program for subsidizing investment and we are now discussing policies for subsidizing employment.

I see no scientific evidence that those policies can affect the relationship that I refer to. I believe they all do affect unemployment. I am not denying the impact of those programs, but I believe that they have an affect on unemployment which is just like the affect of monetary policy.

If they cause the unemployment rate to fall below a range of 5 to 6 percent, I believe they will cause accelerating inflation just as any other expansionary policy.

Mr. DANIELS. What is your opinion about the Federal Reserve System? You heard Governor Partee testify yesterday morning before this committee. Do you believe the system of Federal Reserve, as presently operated, is working, or does it possess any shortcomings?

Mr. HALL. Mr. Chairman, I would prefer not to try to evaluate the structure of policymaking. I am simply not an expert on that subject. I do know something about what I believe are mistakes in monetary policy that we made in the past.

I am not sure I attribute those to structural problems in the way the Federal Reserve System makes policy. For example, I am not sure in 1974, if the Federal Reserve were integrated into the executive branch they wouldn't have done essentially the same thing they did, which is an excessively contractionary policy permitting interest rates to reach totally inappropriate levels.

But as I say, my professional expertise is more in the direction of identifying past errors and not trying to comment on political changes that could bring about a better performance of policymaking in the future.

Mr. DANIELS. One final question; what provisions of H.R. 50 do you support and endorse?

Mr. HALL. Mr. Chairman, one of the policies I particularly support is trying to do something about teenage unemployment. I am glad to hear that the target is interpreting to include teenagers. It is very important to observe that something like 1 percent of the labor force consists of unemployed teenagers. That is, we could achieve a good deal with respect to teenagers.

There is one kind of teenage unemployment that is particularly susceptible to Federal policy, and that is, summer unemployment. We have had summer employment programs, Federally supported programs, for teenagers in the past; the Neighborhood Youth Corp, for example, and under CETA I understand there have been summer programs.

I think we could do more. I think the summer employment of teenagers is not the kind of program that becomes a burden in the future. It is impossible, by definition, for example, for the workers to become permanently attached to employment programs, simply because teenagers don't remain teenagers forever. For the summer programs, that is particularly true. I would say that the goal of structural policies of that kind has to be modest.

We simply can't point to successful experiences with manpower programs that will give me the kind of confidence that would be required to endorse a comprehensive, large-scale program that threatened to provide long-term employment to members of the labor force.

At the moment I simply don't see the scientific evidence that that kind of policy achieves what is hoped to achieve. I would prefer to rely on the kinds of policies we have today for supplementing people's incomes when they are unable to find work and not try to shift immediately to a concept of providing income almost exclusively through providing jobs.

There are some real dangers, some unproven propositions that underlie the notion that public employment is the largest part of the solution to our problems. I do endorse parts of this legislation. I am not against all its provisions, but I am very, very reluctant to endorse its basic reliance on public employment.

Mr. DANIELS. In addition to the approval of the Neighborhood Youth Corps, what other programs do you feel you could support with reference to youth unemployment, which is exceedingly high, in regard to minorities, black and Hispanic youths. It is exceptionally higher in these groups.

We do have the Youth Conservation Corps but it is a temporary program which operates only for a period of about 3 months during the summer. Would you endorse a program for making that a permanent program on an all-year-round basis?

Mr. HALL. Mr. Chairman, I would prefer to see programs for youth that were more oriented toward trying to do something about the transitional problems; that is, trying to get teenagers started on successful careers.

I think one of the problems with the job corps kind of program that puts teenagers in an isolated camp, or something of that kind, is that when they leave that program they are not launched on a career.

They still face the problem that young workers face, of trying to find a place in the labor market that puts them on a ladder that gives rise to something that could be identified as a career.

Many kinds of programs that are attractive and appropriate for the summer problem I don't think are the right direction to go with respect to permanent year-round programs for youth.

Mr. DANIELS. Thank you.

I recognize the gentleman from Connecticut, Mr. Sarasin.

Mr. SARASIN. Thank you, Mr. Chairman.

Professor Hall, I do thank you for your testimony this morning. Do I understand the weight of your testimony to be generally negative to the proposition of H.R. 50, as it is presented?

Mr. HALL. Congressman, the thing I identify as the most serious problem in this legislation, and the reason I would not support it in its present form is its establishment of a numerical goal for the unemployment rates, which I believe is inappropriately low. I particularly oppose the open-ended mandate to achieve that program through public employment. There are other aspects. I can easily imagine endorsing a version of this legislation that did not try to set a numerical target, but rather, reinforce the Full Employment Act of 1946 by making it clear that we wanted to have a publicly discussed annual unemployment target.

That kind of legislation I would support. I also am very skeptical about public employment programs on virtually any scale, and certainly on the scale that seems to be implicit within this legislation.

Mr. SARASIN. As I understand the legislation, it contemplates public employment as a last resort after all the other methods set forth are exhausted, and then the Government will hire individuals at comparable wage rates.

There has been much criticism of the wage policy. I wonder if you would address yourself to that subject.

Mr. HALL. I share the concern expressed yesterday about the provisions of the bill that seem to require that fairly high wages be paid under these jobs for precisely the reason that was indicated yesterday, that this will tend to make the adherence of a particular person holding these jobs to the job permanent because it will pay more than comparable jobs in the private sector.

It is an unfortunate fact that the Government tends to pay wages that exceed the comparable wages in the private sector, even though, in the case of the Federal Government, for example, there is specific legislation that requires the Federal Government to pay not more than the private sector pays.

In fact, if you examine, as I have, a body of data on wages paid to individual workers and try to compare workers with similar skills, you find that the Government tends to pay 10, 15, 20 percent more to its employees than the comparable employees in the private sector.

This means that a public employment program which requires even just that the workers hired under this program would be paid the same as comparable Government workers has the danger that by paying this much it essentially removes the incentive for an individual to locate a private sector job.

I think that is a dangerous feature of public employment programs that stimulate employment, either directly by the Federal Government, or indirectly by, as we have today in CETA, with support of the State and local government because the State and local governments tend to pay above the prevailing wage.

We go beyond that in this legislation with respect to construction in particular by requiring that the provisions of the Davis-Bacon Act apply. It appears that the actual operation of the Davis-Bacon Act is to cause construction workers hired under it to be paid substantially more than are paid to many workers doing the same kind of work in the private sector.

The Davis-Bacon Act seems to operate in practice to provide the maximum wage paid in a fairly large area for each particular job. All those provisions seem to operate in the same direction, of providing excessive wages.

Let me say, on the other hand, that I don't favor the kind of program that Arthur Burns has proposed that sets extremely low wage rates for public employment and then says that public employment is required in order to get unemployment compensation.

That, I think, is going much too far in the opposite direction. It is going much too far with the notion that when we help out individuals with their income that it should be in the form of providing employment.

However, if there is to be a public employment program it certainly seems to me that it should be somewhere between those two proposals. It should pay more than is paid by unemployment compensation—some half or 60 percent of the wage, but it shouldn't have this wage comparability provision.

That is a very dangerous provision. There should be some compromise between those two issues, which provides an incentive for workers under public employment to return work in the private sector, but does not go through what I believe is an inappropriate policy of tying very low unemployment compensation or other forms of income supplements to public employment.

Mr. Sarasin. On questions asked by Chairman Daniels, you commented you were opposed to subsidizing investment, or subsidizing the creation of jobs in any form. I wonder if you would address yourself to the question of productivity in American industry, especially as opposed to productivity in other nations' industry and the claim that is made by economists that we are very far behind in productivity because we have not made the investment in new tools, equipment and machinery to allow our workers to produce as much as other nations have?

Mr. Hall. One of the major reasons we haven't made the kind of investment we should have recently is that we have a very contractionary monetary policy, as I mentioned before. We missed out on a good deal of investment that should have taken place in 1974, and especially 1975 as a result of running a very contractionary policy.

I agree, we are not where we should be today as far as productivity because we don't have the capital we should. The answer, as I see it, is not trying to attack that problem where we see it—in inadequate capital stock—but it is simply to recognize that the reason we have inadequate capital stock is we do not have a sufficient expansionary aggregate policy.

But beyond that——

Mr. Sarasin. Let me interrupt you at that moment because I am not sure I understand you. If we were to have this expansionary policy you are referring to, are we not talking about increasing the rate of inflation during that period?

Mr. Hall. It is always true. Let me turn it around because the unemployment rate during the period I am referring to was way above what I regard as an appropriate target and way above the sustainable unemployment rate.

We got some benefit from the recession in the sense that, as I mentioned, wage inflation is probably going to be only 8 percent when it peaked out at around 11 percent during some quarters of 1974.

So it is true that we would have a bit more inflation today had we had a suitable expansionary policy. But the other side of the coin, and in some calculations I have done suggested it almost offsets that; we would have a more productive economy today, because we would have more capital in place today if we had not had the recession.

The benefit is in prices, not in wages. I emphasize again, that prices do not exactly track wages. We would have gotten a benefit that is referred to specifically in this act, which I do believe in, that an expansionary policy does give us a dividend of prices relative to wages because it generates more capital goods and enables us to produce more output with the same labor force, which lowers prices relative to wages.

Let me go back to the question. Beyond that, it seems to me, reaching full employment gives about the right level of productivity. It is not fair to the American economy to say that it is substantially less productive than many other economies.

There are very, very few other economies that are as productive as the U.S. economy. It is more than twice as productive than, say, the British economy. It is more productive than the Japanese economy.

We shouldn't sell short the accomplishments of the American economy in terms of the level of productivity. It is not clear to me, beyond providing full employment, that there is much the Government can or should do to try to stimulate the growth of productivity.

In particular, I question many kinds of programs to put money into, say, research and development on the assumption that is going to give a large dividend in productivity. I don't think you can document that.

In the past, for example, the Federal Government has put an enormous amount of money into research on nuclear development and it is not at all clear that that research is going to pay off.

It is not clear today that highly advanced technologies that seem to promise a large increase in productivity have actually paid off their investment by the Federal Government. So I remain skeptical of our ability to do anything about productivity beyond providing full employment, and I emphasize again, I endorse the concept of reaching full employment implicit in this bill. I do have this qualification about what the numerical target is.

Mr. SARASIN. I don't think anyone argues with the goal of full employment. The question is, how do we get there and do we exacerbate the situation if we are to try and be the employer of last resort, tighten the labor market, increase the pressure on wage inflation, which I have to assume translates into price inflation at some point.

In your chart you have talked about the increase in the rate of inflation in hourly compensation. I would like to ask you, when that does translate into price inflation is there a lag, and what period of time are we talking about?

Mr. HALL. There is not a very systematic lag you can point to. Generally speaking, wage inflation and price inflation co-exist. A major failure of that proposition took place in 1974, and is one of the reasons for confusion about the relationship between unemployment and price inflation.

Prices rose in 1974, primarily because of increases in the price of oil and food. That was a good example of where prices moved very differently from wages. I emphasize that because I think that is the major source of misunderstanding with respect to the relationship between unemployment and inflation.

There is a long-term historical relationship which, until the middle of 1973 was quite predictable, which said that price inflation was the same pattern as wage inflation but was 2.4 percentage points per year below wage inflation.

And that 2.4 percentage points is the trend of productivity. You can afford to pay labor more than we charge for goods because the labor systematically, over time, is producing more goods.

But if you look at individual episodes—the Korean war episode is a good example—it is not necessarily the case in any particular year that prices and wages do the same thing. Sometimes during that period prices rose much more than wages. I will cite 1974 as the leading example.

Prices can rise very dramatically relative to wages. However, in the long run this relationship that I refer to, 2.4 percentage points difference, has to reassert itself.

It is a fact that prices are determined by costs and by far, the leading component of cost is labor cost. You cannot avoid the fact that sooner or later a persistent pattern of wage inflation will reveal itself as a persistent pattern of price inflation, 2.4 percentage points lower.

Mr. SARASIN. So even if we were to go to controls, which are only indirectly contained in this bill, and don't refer to wage controls at all but only price controls, it would only be a matter of time before those pressures would be applied and we would be right back into a standard relationship.

Mr. HALL. Yes. As I understand it, the issue of wage controls is not something that is really going to be debated here. I think there is widespread agreement that wage controls represent a very difficult unsustainable policy. The pressure that is generated to eliminate wage controls becomes stronger and stronger as time goes by.

We can sustain fairly effective wage controls throughout a period like World War II where there is immense popular support for it, but peacetime permanent wage controls are, I think, just out of the picture.

I think the legislation is quite appropriate in not even addressing that as a possible tool or policy because it simply could not achieve, on a permanent basis, the goals of this legislation.

Mr. SARASIN. So you would agree, as I understand your statement, that although we were able to achieve this during World War II, we are talking about a completely different set of circumstances?

Mr. HALL. Yes.

Mr. SARASIN. Which are not analogous to a peacetime situation?

Mr. HALL. That is right. In some respects this bill attempts to establish something like the economy we were successful in operating during World War II, but I am told—though I was 3 years old at the time—that there were even some signs of difficulty during the wartime period and we know that the policy and controls collapsed rather rapidly at the end of the war.

In any case, I don't see that we have anything like the mandate from the people to establish a World War II forced draft kind of economy today. And yet, my reading of this bill is that that is really what is being called for.

I emphasize we had 1 percent unemployment in World War II. Certainly, this bill is more realistic than trying to say we could reestablish 1 percent.

Mr. SARASIN. We also had 50 million men under arms and were destroying half the goods we were producing, which is a pretty convenient way to create a demand. During that period, it is my recollection—also having been relatively young during the time—we really lived with that controlled policy for a very short period of time and it was falling apart toward the end.

We not only controlled wages and prices but we controlled supplies. We controlled the amounts of goods that were available to the people. Suppose we want to go back to that and take some of these goods off the grocery shelves. We could run a fairly efficient operation, although I would think we are much more dependent today upon outside sources over which we have no control than we were during the period of World War II, energy being a classic example.

And certainly, most of all, raw materials are no longer supplied and located in this great country. Much of the effort in H.R. 50 appears to direct its attention to a great deal of centralized planning.

That, frankly, worries me. If I thought we could run anything very well from Washington I probably would endorse it, but I look at how successful we are with the Post Office and I just don't think we can do anything right here.

I would hate to see this country decide to give up its collective wisdom to all of the brains down here.

Mr. Chairman, I thank the gentleman for his testimony. I have no further questions.

Mr. DANIELS. The gentleman from Pennsylvania, Mr. Gaydos. Do you have any questions?

Mr. GAYDOS. Mr. Hall, did I understand you to say you do not favor any wage or price controls under any circumstances?

Mr. HALL. That would be an overstatement. I don't know of an episode that has taken place in the 10 years I have been an economist where I, at any time, would have endorsed wage and price controls.

I certainly did not in August 1971, but it would be going much too far to say some episode couldn't happen in the future. There is one kind of wage policy that I don't really think is wage control and yet, is quite relevant for some of these considerations, and that is where the Government sets the wages it pays to its own workers.

The Government is a nontrivial fraction of total employment. When I talk about wage numbers, they include the Government. There are some questions I have about Government wage policy, particularly the tendency I find in the data for governments to pay wages—not so much increases that are inappropriately high, but the whole level of government wages seems to be excessive.

Mr. GAYDOS. We are talking about wage and price controls. I am not talking about what governments are paying. I asked you a simple question on wage and price controls. You suggested in 1971, when they were put on by the President, then Mr. Nixon, that you didn't agree with them.

Let me ask you a question. He kept them on approximately the first 9 months to a year. Were they working at that time? Did they work the first year they were in effect?

Mr. HALL. The statistical evidence on the actual impact of wage controls is not at all clear to me, but I do point to one situation which suggests that they worked. My criticism of wage controls is not to say that they don't work, but I don't like the things that they do.

When we let go of wage controls finally, in May 1974, there was a perceptible increase in wages discontinuously associated with that particular episode. There is no question in my mind that wage controls are effective in the sense that they do reduce wage inflation.

I think the kinds of political problems and allocation problems and the things people have to do to escape the wage controls make wage controls a very undesirable policy.

Mr. Gaydos. Do I understand you are saying then that wage and price controls do work under certain circumstances, and they have worked, although you don't accept them? Is that what you are saying?

Mr. Hall. Let me turn to price controls because I haven't said much about that. Price controls do something which wage controls do not do, which is, they cause shortages. In 1973—I refer now to the period before the oil price increase—price controls on many kinds of products resulted in the disappearance of those products from the shelves.

It was impossible, for example, to buy many kinds of plumbing fixtures in the summer of 1973. I believe that is attributable, in large part, to the fact that we imposed price controls on those products.

It is particularly an illusion to imagine it is a good idea to impose price controls without wage controls. It is the incentive to produce the controlled goods that disappears. Producers won't sell below cost.

I think what we learned is that they weren't selling that far above cost to begin with and the price controls quickly caused shortages. I think shortages represent the total useless waste of resources within the economy.

There is simply no reason why we should trade product price inflation for standing in line. Standing in line is a purely wasteful activity. So I would particularly caution against price controls as a solution to this problem.

Mr. Gaydos. Let me ask you, Professor, if I may interrupt you, you seem to be very set against any type of Government subsidies. That is the position you have taken. You don't agree with them and we are talking about an almost unlimited amount of Government subsidies available, both in the private sector, military-industrial complex, building and running of ships, the whole business.

You take the position that it's bad and you wouldn't recommend it and we shouldn't be doing it under the circumstances. I think that is your position. I would like if you could, in a relatively short time, give me some acceptable substitutes for existing Government subsidies in these areas.

I can talk about Penn Central, all the farms and farm products. As I mentioned before, our ships, our foreign tax credits, we give our corporations investment tax credits, which you don't like, our R. & D. building mechanical hearts. I could give you a list for 1½ hours.

But what would you put in place thereof and how would you handle the complexity of problems that we have undertaken to subsidize, as a Nation and Government?

Mr. Hall. Let me say first there is one kind of subsidy I very strongly favor which we do and to a large and successful extent, which we don't want to give up, and that is we subsidize the poor. We do that in a large number of ways and we have some very effective programs for putting dollars in the hands of the poor.

I don't want to suggest for a moment——

Mr. **Gaydos.** Wouldn't it be nice if instead of putting money in the hands of the poor to make some jobs available so they wouldn't be receiving money that way? Isn't what this bill is all about?

Mr. **Hall.** That is right, and the bill is very clear that one of the first tools we should use—and one I repeatedly endorse—is monetary policy to provide as many jobs as we can without pushing the economy into an unsustainable region.

Mr. **Gaydos.** So I don't lose my train of thought, you have been referring to monetary and fiscal policies. We all have agreed that the employment of people, making jobs in this legislation, is the element of last resort because in our bill we do mention in general terms, some changing, some new approach and we give broad powers in the area of monetary and fiscal policy, which you are alluding to.

Is that true at this time, that our existing monetary and fiscal policies have failed?

Mr. **Hall.** Congressman, I am not exactly sure what it means for a policy to fail but I would certainly point to mistakes that have been made in the past.

Mr. **Gaydos.** We have a lot of unemployment and it has failed, hasn't it, otherwise we wouldn't need this bill? If our monetary and fiscal policies, as they are now constituted, were working we wouldn't be sitting here and wasting your valuable time, or our committee's valuable time. Hopefully, we would be on another piece of legislation.

Mr. **Hall.** Supposing unemployment today were 5.8 percent, then I think we would be having very much the same kind of discussion we are having now. I would be saying we have gone as far as it is safe to go with monetary expansion.

We either have to learn to live with 5.8 percent unemployment or we have to design some policies apart from monetary policy that can push that level down.

Mr. **Gaydos.** Your conception and opinion at this time is that because of the explanation you gave earlier that we are destined as a Nation, under existing circumstances, sans some kind of big change, to live with 5½ to 6 percent unemployment. Is that what you are saying?

Mr. **Hall.** I think that is a fair summary of what I am saying.

Mr. **Gaydos.** Can I go back to 1947, 1948, and 1950, where we had all the war plants then ceasing to exist; we had all the soldiers coming home, 15 million; we had the baby boom on us at that time. The same type of projections were made, that we would never be able to sustain any kind of a reasonably acceptable unemployment figure.

That just hasn't happened to be the truth. In that period until now, we have had some periods of recession. We had some great periods of almost unheralded expansion. Isn't that true?

Mr. **Hall.** As I pointed out, the periods of expansion were when wage inflation did exactly what I referred to here; it accumulated. My feeling is that the period you are referring to, which is 1964 through 1970, I read the Government data as showing very clearly that that represented an unsustainable situation in that labor market.

Mr. **Gaydos**. Let me ask you this. It is predicted, and I think you will agree with the predictions that you have in the long term, there are demographic shifts in our work force. I am talking namely about a larger proportion of our adult population who are going to be consumers rather than producers and we are going to have less people working proportionately.

Mr. **Hall**. Could I say something about that because that is a little bit misleading. What has happened is there has been a large increase in the fraction of adult women who are in the labor force, enough so that the overall fraction of the population that are workers as well as consumers is rising.

That is offset to a certain extent by the fact that people are retiring earlier.

Mr. **Gaydos**. I have an article here from the Wall Street Journal of last Wednesday, April 7 by a man I think you have great respect for, Mr. Peter F. Drucker. He has an article here that is so concise and on the point we are discussing.

He says this: "Looking at all its parts, the basic tendency of the American economy for the next 5 or 10 years is not toward a labor surplus but a shortage." And he cites in the article many sustaining elements to justify his conclusion.

I am submitting to you, Professor, I think you have been very concise in your opinion, but there are people and qualified individuals in this country that feel diametrically opposite to what you have expressed before the committee, namely, that our labor force is going to be smaller.

It is not going to be larger, it is going to be smaller and consequently, if logic follows, we should be well able to sustain a 3-percent unemployment factor in the economy.

Mr. **Hall**. The structural relationship I refer to is one between the unemployment rate itself and the rate of wage inflation and is not related to the size of the labor force—that is, the fraction of the total population that is in the labor force. I believe that fraction is largely relevant for the question I have addressed.

One of the advantages of an unemployment target is that it is adaptable to these questions. It doesn't really matter. We can't set a quantitative production target because we just don't know what fraction of the population will be working.

But we can set an unemployment target and I think the bill is exactly right in focusing on the unemployment rate as the appropriate target. We can set an unemployment target even if we don't know what fraction of the population will be working.

Mr. **Gaydos**. I take it you have taken a counter position to Mr. Drucker.

Mr. **Hall**. I feel at a disadvantage because I haven't read the article.

Mr. **Gaydos**. I will make it available to you and appreciate any comments you can make.

Mr. **Sarasin**. Will the gentleman yield?

Mr. **Gaydos**. Yes.

Mr. **Sarasin**. I have read some of Mr. Drucker's material. It seems to me it doesn't agree with H.R. 50, although you may be able to find something that supports it. I don't think he would agree at all with the concept of this bill and I don't think he would be arguing with Professor Hall.

Mr. GAYDOS. I will respond to my colleague, who I have a deep admiration and respect for. I would suggest very pointedly I am not talking about what Mr. Drucker's feelings are toward this legislation.

We are talking about his position as a man of distinction in his particular economic field taking the position that the American future, as far as the labor market is concerned, indicates a shortage, as counter distinguished from a surplus.

I only cite Mr. Drucker to sustain that position. Let me conclude by thanking you, Mr. Hall. You are very intense in your positions. I disagree with some of them but I would like to have a concluding observation on your part.

Do I understand you correctly when you did state in your studied opinion that we in this country could not, under any circumstances, reasonably expect to sustain an unemployment rate of less than 5½ percent.

Mr. HALL. That would be somewhat of an overstatement. I read the evidence today as showing that without structural changes we could not sustain an unemployment rate below 5 percent.

My most likely figure for that is 5.8 percent. But, let me say, things can change. We could discover a policy—I don't know of such a policy today—that changes that relationship dramatically.

It is certainly true the number I would have given for that 10 years ago would be lower. It might be as much as a half percentage point lower because things change in the labor market.

The changes that have taken place in the past 10 years have been adverse. Let me point out that the adverse changes I think have come to an end. I do not anticipate, on the basis of what I know about the labor market today, that the 5.8 percent will drift up any further.

And, in fact, as the number of births in this country reached a peak in 1957, those people are almost graduated from being teenagers and things are going to get better. The outlook from here is not for the gloomy upward drift in the sustainable unemployment rate for the future.

We have reached the very worst point today.

Mr. GAYDOS. Thank you very much, Professor. I imagine I will have to presume that professors are going to be in that 6 percent unemployment area too.

Thank you, Mr. Chairman.

Mr. DANIELS. I now recognize my distinguished colleague from California, the author of the bill, Congressman Hawkins.

Mr. HAWKINS. Mr. Hall, as a follow up to the question asked by Mr. Gaydos, on page 5 of your statement in which you deal with the question of a sustainable rate of unemployment, you use a figure of 5.8, or 5 percent of adults. Is that the amount of unemployment that you construe to be sustainable, or an appropriate target; which is it?

Mr. **Hall.** I have avoided saying that the sustainable rate should always function exactly as the target. I can imagine situations where the target would be different from the sustainable rate.

However, I would oppose the adoption of any single target much below the sustainable rate because by definition of the sustainable rate I don't believe that target can be sustained.

Mr. **Hawkins.** You used sustainable rate. What is such a rate when you say that?

Mr. **Hall.** The sustainable rate is something you deduce from the data by looking for an unemployment rate below which the rate of wage inflation tends to accelerate.

Mr. **Hawkins.** What is a 5.8, as it is used on page 5?

Mr. **Hall.** It is an estimate of an unemployment rate such that when the unemployment rate is much below 5.8 percent we observe not just high rates of wage inflation but rising, accumulating rates of wage inflation.

Mr. **Hawkins.** Then it is a benchmark you use?

Mr. **Hall.** It is a benchmark exactly.

Mr. **Hawkins.** This, as defined in the statement, means 5.8 percent of adults, which excludes teenagers.

Mr. **Hall.** The 5.8 percent is on the basis of the entire labor force.

Mr. **Hawkins.** You said 5 percent of adults throughout your statement. You use adults as excluding teenagers. Is that not true?

Mr. **Hall.** My understanding in writing this, which I now find to be incorrect, is the conventional definition used in government data, adults being people who are not teenagers, that is, 20 and above, as a technical matter.

The 5 percent means 5 percent among members of the labor force age 20 and above.

Mr. **Hawkins.** It is more than a technical matter. On page 3 you have tables that relate to adult unemployment rate and one which relates to the total unemployment rate. You have made a very sharp, definite distinction throughout the statement that when you talk about adult unemployment you exclude teenagers; isn't that true that throughout the statement, whenever you make a statement that says "adult unemployment" you are not referring to teenagers?

Mr. **Hall.** That is only when I read the bill. I did encounter the phrase "adult unemployment". I assumed, mistakenly, the definition used there was the same as used by the Bureau of Labor Statistics.

All of my research has been carried out in terms of the official unemployment rate, which I now understand to be the same unemployment rate as set by the bill, which I believe is the correct unemployment rate to be the target.

All references to the adult unemployment rate in this paper should simply be ignored.

Mr. **Hawkins.** Are we to understand on page 5, when you make the statement that a reasonable single estimate is 5.8 percent, or 5 percent of adults, that you are not excluding teenagers?

Mr. **Hall.** The 5.8 percent includes teenagers. That sentence, I see now, is ambiguous. It should read, "a single reasonable estimate is 5.8 percent of the entire labor force".

Mr. HAWKINS. That would have made it clear, but as you stated here, your so-called target is not 5.8, or 5 percent of adults, according to the reasoning that you have used. It would be at least one-half or 1 percent larger if it included teenagers.

Mr. HALL. The 5.8 percent does include teenagers. It refers to the unemployment rate for the entire labor force.

Mr. HAWKINS. Then "5 percent of adults" should read, as you define them, much more than 5 percent because in that reference you have excluded teenagers; is that not so?

Mr. HALL. That is right. If you set the target on the basis of the adult labor force, which has a significantly lower unemployment rate, the target should be lower.

Mr. HAWKINS. So you are talking about a target not around five but substantially larger? It is at least 5½ to 6 percent.

Mr. HALL. That is exactly right.

Mr. HAWKINS. I just wanted to know what you called a target. Now, are you going to say to all of those still unemployed, when you reach that so-called target of 5½ or 6 percent, that all of you who are unemployed can just forget about any hope of ever becoming employed?

Are we to reach a point below which we would disregard all others who may be unemployed? What do you do to those who do not get by the gate at that point?

Mr. HALL. At 5.8 percent unemployment, the typical unemployed person remains unemployed for less than 4 weeks, so we should not talk about the unemployed in that situation as if there were a mass of people excluded from jobs.

About half of them are people who are on lay-off from their jobs and who have a good expectation for returning to their original jobs. The other half consists primarily of individuals who have just entered the labor market within the past 4 weeks and are looking for work.

It is not correct to say that at that kind of unemployment rate there is, in any sense, a large group of workers who are unable to find jobs. Rather, there is a large group of workers who are just about to be recalled to the jobs they already have.

They should not be identified as jobless at all. There is another group who are looking for work but haven't quite found it yet. We should not misunderstand what 5.8 percent unemployment means.

It is a very different world from 9 percent or 8 percent or even 7½ percent where we find a significant number of people who have gone a fairly long period of time without finding work. But at 5.8 percent unemployment we reach a situation where the great bulk of the unemployed are in the process of finding work or returning to jobs.

They are not at all a large group of people.

Mr. HAWKINS. Mr. Hall, you know that absolutely isn't true. You know there are groups of the population such as minorities and women who, at 5 percent, will have an unemployment rate of twice that figure. Teenagers would probably have three times that rate.

This average of which you speak certainly does not wash out completely. These special groups, who are not going to be called back to some job, or who have never had a job and are never going to locate one, have larger rates.

I am asking you what you do if you reach the 5 percent and, let's say, there are individuals who have never been in the labor market or who have been unemployed for a year or longer. What are you going to say to them? What are you going to do with them who, at this rate, are going to be left out?

They are American citizens entitled to the same rights as others. What are you going to say to them?

Mr. HALL. In the first place, the group with the largest unemployment rates is teenagers. I have discussed that as a special problem. A good part of the difficulty with teenagers is their inability to find summer work.

It is important when you see a large unemployment rate for teenagers that a good part of that number—not all of it—represents the fact that the economy simply does not provide enough summer jobs for teenagers.

I endorsed the provisions of the act referring specifically to providing summer employment for teenagers. Beyond that, we should recognize that at 5 percent unemployment the typical unemployed person remains unemployed for less than 4 weeks.

That applies even to those groups with very high unemployment rates. The problem with high unemployment is not a problem of people who permanently cannot find work. The difficulty—and I refer again to 5.8 percent unemployment—is at unemployment rates like that you find, for example, the Black unemployment rate will be higher. It will be at least 8 percent.

If you look into the details of that, it is not that that means there is that fraction of Blacks somewhat excluded from work, it is that the kind of work they get doesn't last very long, they get laid off more frequently—more frequently is by far the largest explanation of that.

There are problems in the labor market, and I certainly don't want to paint a picture which says that the labor market works perfectly. One of the major problems is that for various reasons, minorities get laid off jobs more frequently. But it is not accurate to interpret those numbers as saying those are people who can't find work.

It would be much more accurate to say those are people who, for one reason or another, find themselves becoming unemployed more frequently. However, the duration of their unemployment is no longer, and in some cases, shorter than it is for the more advantaged members of the labor force.

Mr. HAWKINS. Are you saying they are unemployed because of personal characteristics, or are you saying they are unemployed because there are no jobs available?

Mr. HALL. There are certainly jobs available at 5.8 percent unemployment. The difficulty is there are not permanent jobs for one reason or another. These groups of high unemployment are laid off more frequently from those jobs so that if you look at the job histories, and this is true of young people in general, you find they are moving between jobs. It is not an unavailability of work. It appears to be their difficulty in locating long-term permanent work.

When we see 10 percent unemployment that doesn't mean 10 percent of the labor force is unable to find work. It is 10 percent of the labor force is between jobs or about to find a job.

It is still a social loss. It is still something we should very much concern ourselves with. But, we shouldn't interpret that to mean that 10 percent of the labor force is simply unable to find work.

Mr. HAWKINS. Let's get to wages because I think the thrust of your statement deals with wages. You seem to have an obsession against high wages. Let me ask you whether wages have an influence on economic growth and low unemployment, and if economic growth has lagged, in real terms, behind productivity gains?

Mr. HALL. I have studied that question. There is essentially no lead or lag relationship systematically between prices and wages. Others have done research on this question and reached the same conclusion.

There is one very important episode which I believe has dominated the thinking on this issue today, which is that prices rose starting in late 1973 because of food and oil. There was, by necessity, a reduction in the real wage that took place during that period because the terms of trade with respect to oil in the United States shifted very adversely.

We simply had to have higher prices relative to wages as long as we were forced to accept a high world price of oil.

Mr. HAWKINS. That isn't the point. I am asking you with respect to productivity. Let's put it this way. With respect to productivity, are wages leading or lagging behind rising prices?

Mr. HALL. Mr. Congressman, today prices are rising less rapidly than wages. We are just about now back on the traditional historical relationship where there is a 2 to 3 percentage point increase in the real wage, the ratio of the wage to the price.

Today we are getting back into the more traditional relationship where we are talking about, say, for the next year an 8-percent increase in wages, 6-percent increase in prices, and therefore, a 2-percent increase in the real wage.

The relationships were very much dislocated in the 1973–74–75 period on account of the real loss to the economy associated with the increase in the price of oil.

Mr. HAWKINS. Would you give us a period of time, any period of a year or more, and use whatever time you want to, in which wages have led prices and productivity. Will you point out a period of time in the last 20 years in which that situation was true?

Mr. HALL. The most striking episode of that kind was more than 20 years ago. It was during the Korean war.

Mr. HAWKINS. Within 20 years, at what time have wages been leading prices?

Mr. HALL. Wage inflation and price inflation was very closely associated through the third quarter of 1973, and the largest single discrepancy was on the order of half a percentage point.

Mr. HAWKINS. Was it actually leading?

Mr. HALL. There was no systematic tendency for either kind of inflation to lead the other. It was a very close relationship.

Mr. HAWKINS. Let me get to the last point. I would like to address my questioning to your statement. After you have ignored all the priority programs in H.R. 50, and after you have misinterpreted the main emphasis of the bill, and its use of monetary and fiscal policies, its use of economic development programs, its countercyclical aid programs for youth, et cetera, you end up with the main emphasis on public jobs in the private sector, which is a terminal program and the program of last resort.

You then get into some rather strange mathematics on pages 10 and 11. First of all, you say there is an open-ended guarantee to underwrite all who may not have been employed in the conventional manner.

This completely ignores the fact that criteria have been carefully set out on page 33 of the bill in terms of those who would apply for the jobs and how they would be considered, beginning on line 12, where we say "such priority criteria, where it may be appropriate to establish the order in which persons able, willing and seeking to work are provided jobs."

And then the criteria written are the duration of unemployment, the number of employed persons in the household, the number of people economically dependent on any such person, and so forth. Yet, you call this an open-ended guarantee to underwrite the employment of as many workers as are necessary to maintain the target rate of unemployment.

Even overlooking that misreading of the bill, or not having read the bill, you get down to a hypothetical situation in which you indicate that from 5 to 8 million persons are going to be put into public jobs.

I am sure you wouldn't agree with the 8 million because, if there are only 7½ million unemployed at the present time, I assume you would agree with some number halfway between that.

But, let's hypothetically, say, 5 million persons would be put in as a final resort under this bill—the argument with which you conclude, which I think is not a valid one to use because we don't anticipate this bill doing such a thing—and we had 5 million jobs and we used 10 thousand per job, that would be $50 billion.

Confirmed evidence before this committee would estimate that for every 1 percent of reduction of unemployment there would be $32 billion gained as a result of the unemployment compensation reduction, welfare reductions, and so forth.

So, if we count 2 percent reduction, that would leave $18 billion for that 5 million jobs. In terms of the fact that those 5 million persons would then be producing goods and services, would you ignore completely in this calculation, this MIT mathematics, the multiplier effect?

In other words, you are saying that though people are going to get jobs there would be no impact on the total economy. If you leave that out altogether then you end up with a differential cost of between $40 and $50 billion, in your terminology, and a $10 billion saving and a $40 billion outlay.

Would you say that is a correct formulation that would ignore completely the impact and multiplier effect, the actual savings that would result and the fact that you now have persons who are not a total liability, but who are producing goods and services as opposed to those who are not producing anything?

Would you say that if we could accomplish that with $18 billion, we probably would be doing a great service to the Nation to solve our economic problems at the cost of $18 billion?

Mr. Hall. Most of the advantages you have alluded to there are the advantages of any expansionary program. The reason I don't address multiplier effects is that we have policies which require, essentially, no movement of resources for achieving expansion, namely, monetary policy.

I don't think what you said is quite right about my position on this bill. I put primary emphasis on the fact that aggregate monetary and fiscal policy can do a lot more than it has done.

It should do more today. In the first place, you have got to compare alternative ways of reducing unemployment and even if you found several that seemed to have very favorable computations of the kind you have done, you still are obligated to take the best.

Monetary expansion is essentially free. There is nothing you have to do by way of setting up programs, hiring highly skilled administrators, putting resources into the program. It costs a nickel to expand the money supply by $1 million.

We have got to compare one expansionary policy with an alternative and I felt that monetary expansion on a cost-benefit basis is the most effective.

Let me go back to some of the earlier remarks you made. Let us not for a moment have the illusion that increasing public employment by 1 million workers reduces unemployment by anything like 1 million workers.

That is a very elementary mistake that is made and gives a very strong bias toward these programs, but it is wrong because everytime you tighten the labor market all kinds of other effects take place to cause an offsetting increase in unemployment.

It is well known, for example, that workers come into the labor force in response to improved conditions in the labor market. That is one of the reasons that we get a large social dividend from decreasing the unemployment rate. It is precisely that we bring more people into the labor market.

Some of those people become unemployed in the process of finding work. I have tried to give some impression of what would be realistic to get from this kind of policy, and it is nowhere near 1 million reduction in unemployment for each 1 million increase in jobs.

Mr. Hawkins. I didn't assume that at all. I was using the formulation that you used, not that I would agree with it. Let me just simply ask you this. Don't you believe monetary and fiscal policies which would be the main weapons used under H.R. 50 are the proper approaches to use and that the use of these, while it would not solve all of our economic problems, certainly should be the beginning of the solution to the problem.

And this, backed up with a proper manpower policy and program plus economic development that would reach specific industries, groups and areas of the country, would make the emphasis on public service employment, which seems to be the main thrust of your statement, more manageable and certainly, as a residual program, much smaller than the $80 billion to which you refer on page 10.

Mr. **Hall.** I have studied the programs you refer to that are other than public employment. I think there are some good programs. I am not against manpower programs but I think and believe people who operate these programs and design them would agree it is just creating a false illusion to think you could achieve a reduction in sustainable unemployment rate of the magnitude embodied in this bill through those kinds of programs.

We have valuable programs——

Mr. **Hawkins.** In my question I didn't ask you necessarily to pick out one factor. I said a collection of these programs, and I mentioned about 10 of them, coordinated and integrated into some sort of a specific policy approach. Would that not go a long way toward making the type of public jobs to which you refer in the final pages of your statement manageable, and certainly of a very small magnitude?

Mr. **Hall.** My impression is the achievement of those programs is, at the very outside, half a percentage point in the unemployment rate, nowhere near the 2.8 percentage points that is the gap between the 5.8 that I see today as what we can get with aggregate policy, and 3.0 that is in the bill.

It boils down to a question about the evidence of the kinds of policies. Perhaps I wasn't clear. I was referring to the 10-plus or minus kinds of programs that you were talking about; training programs, area targeted programs.

I did a study a few years ago that tried to be comprehensive in that and to appraise what the prospects for reducing the unemployment rate through these programs. It is not zero. There have been successful programs, but we should not oversell those programs.

It would be grossly overselling those programs to think that very much of the 2.8 percentage points of unemployment that we need to eliminate could be done with the kinds of programs that we have had success with in the past and know about today.

In other words, I would interpret this bill as putting, in effect, primary reliance on, first of all, aggregate policy to get 5.8 percent, and public employment plus perhaps half a percentage point at the outside for the other structural policies.

But, most of that 2.8 percent—let's say 2.3 percent of it—has to come from the public employment part of it. My impression of the legislation—I am not an expert at reading legislation—is that the bill requires policy makers to achieve the 3 percent using all of the different tools it makes available to them.

My interpretation of the effect of those tools says that the one that can have an effect if it is operating on a large enough scale is public employment. We can go as far as 5.8 percent with aggregate policy and then we have to rely on public employment to get most of the remaining 2.8 percent.

The arithmetic I do in my statement shows how many jobs the evidence suggests would be required to get 2.8 or 2.3 percent. The answer is, it is a lot, a lot more than many supporters of this legislation have in mind.

Mr. **Hawkins.** Thank you very much.

Mr. Daniels. Professor Hall, the committee desires to thank you for your appearance and your testimony.

Mr. Gaydos. Mr. Chairman, it is my distinct pleasure to welcome, on behalf of all Pennsylvanians, a Governor I have been personally acquainted with for a long time, and who has on numerous occasions, unselfishly given of his time to come here to Washington on most important problems such as the energy shortage we had, the truckers strike and on various economic problems.

Mr. Chairman, it is my distinct pleasure at this time to introduce to the committee as our next witness, the Honorable Milton Shapp, Governor of the State of Pennsylvania.

Mr. Daniels. Governor Shapp, I welcome you to this hearing and await with interest your testimony on this very important bill.

STATEMENT OF HON. MILTON J. SHAPP, GOVERNOR OF THE STATE OF PENNSYLVANIA

Governor **Shapp.** Thank you very much, Mr. Chairman and Mr. Gaydos, I greatly appreciate your kind words.

Mr. Chairman, members of the subcommittee, I welcome this opportunity to testify in support of H.R. 50, the Full Employment and Balance Growth Act of 1976. I should also like to treat some economic matters not contained in this bill and also give some of my observations to the statements made by the previous witness.

This year, 1976, is the seventh in a row in which the Nation will have an intolerably high level of unemployment.

Since 1968, the official unemployment rate has averaged well over 5 percent. The real rate of joblessness, counting those forced to work part-time, has averaged 8 percent. Unemployment among minorities and youths has been at least double this.

And who knows really how many idle people have simply thrown up their hands at the hopelessness of the situation and have disappeared even from the statistics. I would like to comment just briefly on the statement that I just heard with disbelief that 5.8 percent or even 5 percent should be considered a normal unemployment rate in this country, or this is what we are going to have.

I say that this country cannot sustain this unemployment rate without going down the drain in the future. I think if we just said to ourselves if this Nation were at war, what would be the unemployment rate. We would say it would be fractional unemployment, zero, except for those people between jobs or studying to have jobs.

I submit that is what we should be heading for as a policy of this nation right now in peacetime because it is attainable and it must be attainable. I don't go with computer studies. I would rather think in terms of human beings than computer models.

I am truly appalled that in spite of this abysmal record, the Ford administration has rejected this bill as unnecessary and labeled its goal of full employment as impossible. This is the height of hopelessness.

To say that this great Nation, with all its tremendous wealth, great variety and quantity of resources, and its remarkable human talent, cannot find solutions so that all our people have the opportunity to work productively is tantamount to saying that the capitalistic system in American can no longer serve the needs of our people. I refuse to buy that.

In my opinion, it is the gross mismanagement of our great wealth, resources and human talent by incompetent leaders that is at the core of the problem. I believe we must and can have full employment in this Nation.

We can put millions of people back to work productively earning money and paying taxes instead of draining the Federal treasury for welfare and unemployment conpensation payments.

It is time to stop waiting and hoping, and to start planning and working for a better future for our people. This Nation still has the will and the resources. We lack the leadership and direction to move ahead.

The year 1976 should be one in which the United States makes an unequivocal commitment to provide a job for every American man and woman who wants to work.

The Nixon-Ford-Burns trickledown approach to economics has not worked for the past 7 years, and it will not work today. There is no way we can restore prosperity and confidence in our Nation by enriching the wealthy through tax breaks and giving benefits to the special interests.

I reject the idea that we must sacrifice the productive work of millions of our people to control inflation. And I reject the entire concept that Federal budget deficits are a cause of inflation in America. I refer you to President John Kennedy's speech at Yale on June 11, 1962, for substantiation of this position.

I reject the notion that a full employment guarantee will produce overspending by our Government. These are myths which are founded in neither truth nor history—though, like all myths, they have great powers of persuasion.

In the past several years, we have had the worst unemployment since the Great Depression. This has been combined with the worst inflation in decades. Yet, the President's economic advisers persist in trying to prove their pet economic theory that we can cure inflation by maintaining high unemployment, or by tightening the money supply and increasing interest rates. Bring back the WIN buttons. They are just as effective.

As I have indicated, I think it is truly disgraceful that America, with our enormous wealth, great human talent, physical resources and great need for productive labor consistently has the highest unemployment rate of any industrial nation.

A continuation of this disparity is truly a threat to the capitalistic democracy which we in America have developed over the past 200 years.

Let me repeat: We can—and must—put America back to work, achieve full employment and full production with stable prices and control Government spending. Passage of the Humphrey-Hawkins bill will permit us to do that.

And by adopting the principles of capital budgeting and a national investment program, we can further meet that commitment. All of these programs could mean jobs and greater revenues for our national, State and local treasuries.

Let me turn to some of the specifics of the Full Employment Act. First, it sets forth the right of all adult Americans to do useful work for fair compensation.

Last year, this Nation spent $20 to $25 billion in unemployment compensation payments, welfare and other income maintenance payments to support people who wanted to work but could not.

At the same time, we lost nearly $50 billion in Federal tax revenues because of excess unemployment. The income maintenance payments alone could have paid for 2.5 to 3 million jobs, thus, reducing our unemployment levels by nearly 40 percent.

Moreover, had we done this, the additional workers would have boosted tax revenues by perhaps $10 to $15 billion, thus, cutting significantly into the budget deficit.

Instead, although Congress passed a series of measures to create new jobs in housing, in public service areas and to shore up State and local government revenues, the President repeatedly vetoed these job bills.

These vetoes consigned millions of American men and women to the continuing insecurity of joblessness, continuing their dependence on public welfare programs, and mounting discouragement over the prospects of the future.

The social costs of the vetoes are unmeasurable. Mental and emotional stress, disintegration of families and crime are results which will be with us for years to come.

I must say I can neither understand nor accept the approach of any political leader whose only answer to the needs of millions of our citizens is the veto. What has happened over the past 7 years is that the Nixon and Ford administrations have turned increasingly to social programs to cushion the shock of economic problems instead of adopting programs to solve these problems directly.

Instead of investing money to build new housing, they have become the Nation's biggest slumlords. Instead of rebuilding our railroads, they have spent billions of dollars to subsidize inefficient service on delapidated rail lines.

In fact, under this administration and its predecessor, bloated social programs and subsidies have become a way of life for millions of Americans.

A second feature of the Humphrey-Hawkins bill would require the President to present an annual statement of the economic trends and analyze the relationship between these trends and our goals for the economy.

I concur with this element of the bill also. The Federal Government is already doing a great deal of economic planning. The Council of Economic Advisors, the Treasury Department, Office of Management and Budget, the Federal Reserve Board, make policy decisions regularly which will affect the economy for years to come. Often their respective plans are at odds with each other.

While we don't necessarily need more economic planning, we most certainly need better planning. The decisions of these bodies should be drawn together regularly and presented in a coherent fashion so that the Congress and the public can review them.

Incidentally, back in the early and mid-1960's I used to teach courses in planning and one of the definitions I used for planning was the process which enables executives to make better decisions.

I think it is just totally unacceptable that we arbitrarily say there should be no planning for programs because this means that executives are not in a position to make more accurate decisions.

Instead of the present system of piecemeal planning, and of half-hidden fiscal, monetary and economic agendas, we should have a regular and coherent statement which is subjected to full scrutiny and congressional review.

Third, the bill would begin the task of making the Federal Reserve Board accountable to the public. Arthur Burns' theories of economics have been the single biggest cause of both inflation and unemployment in the Nation in recent years.

Each time the Federal Reserve Board tightens the money supply and raises the rediscount rate, higher interest rates flow throughout the economy, driving up the costs of virtually all goods and services.

The Federal Reserve Board, unfortunately, is enchanted with a false premise that inflation can be curbed by raising interest rates because the higher cost of money will lessen the demand for loans and ease money pressures.

But this theory overlooks the simple fact that the cost of borrowing is a major cost factor for all businesses and industries. And when the cost of money rises, industry must raise its prices to offset these additional costs.

Thus, tight money and high interest rates actually increase inflation by raising the cost of doing business. This has happened repeatedly, at least four times, since 1965, and will continue to happen until those who shape monetary policies are made to account for and justify their policies and plans.

Fourth, the Humphrey-Hawkins bill would direct the President to develop specific programs to improve Government efficiency, control inflation, and provide the millions of productive jobs we need to end unemployment and rebuild America.

There is only one way to do this, and that is to begin a national public sector investments program to rebuild America, and by so doing, stimulate the private sector of our economy. We can and must put our enormous resources to work building up our productive capacity.

Public sector investments in rebuilding our cities, rehabilitating and modernizing our railroads, putting in water and sewer systems, educating our young and training our work force will create millions of new jobs, and billions of dollars of additional output.

It is ironic that the concept of investment, which is an accepted principle of business, is so foreign to a President who claims to be aiding business. Virtually every successful business firm makes essential investments as a means of increasing its income—and most businesses borrow to make these investments. as long as the projected yield will amortize the borrowing and show a profit.

This is precisely the strategy we need in Washington. Public sector investments can improve transportation, build new housing and new neighborhoods in our cities, and improve the skills of our work force. These investments can also stimulate private sector investment several times over.

A study in Pennsylvania has shown that for each dollar of public sector investment there will be a triggering effect of $2.40 by the private sector. The combined $3.40 will result in an annual addition to output of $8 to $10.

But instead of investing public sector money to build up the economy, the President's budget recommendations actually are based on reducing investment to meet increased social costs.

To repeat a point I made earlier, the Ford administration is using social programs to absorb the shocks of its own misdirected economic policies. Let me explain this with specifics:

The President's budget—page 19–20 of the 1976–77 Budget Summary—notes that the recent rise in outlays for social and income security programs "indicates an increased response to human needs, but could present a long-range budgetary problem of fundamental importance if these programs were to grow in the future at the same rate as they have in the past."

The commentary continues: "The budget cannot accommodate the same rates of growth in the future, and maintain an adequate level of defense and other direct Federal activities, unless the Federal Government takes an ever-increasing portion of GNP through increased taxes."

The reason why these "overhead" costs of Government have risen so fast is precisely because we have failed as a nation to build up our productive capacity. In particular, Government has failed to invest sufficiently in research, education, transportation, and development of natural resources, thus necessitating increased costs of welfare and unemployment compensation and reducing tax revenues.

In fact, there is a great danger in the President's arguments. For he has not cut spending in his budget to balance it; he has cut investment. And, as a nation we will pay dearly for this in the future as our output fails to grow.

And this is exactly what the President is saying in his budget summary, except he doesn't understand the reason for it.

The President's budget projects a continuing decline in investment-type outlays over the next 5 years. And I say this is false economy. Public sector investment goes from about 23 percent to 21 percent.

It is false because by skimping on public sector investments, the Ford Administration will guarantee a continuation of high unemployment and low productivity.

This, in turn, will further increase the on-going costs of government income maintenance and social programs. False economy such as this could produce a downward spiral in our national economy.

It means that although the budget deficits may be smaller this year and next, they are bound to be much larger in the future. The President spends all of his time worrying about the expenditure side of the budget and doesn't even talk about income or revenue side.

I don't know of a single business enterprise anywhere which works on this principle. Business always starts with its revenue projections and makes investments to increase revenue and then to curtail operating costs.

Business strives to hold down its operating costs. But in business it really doesn't matter, in any one year, how high operating costs rise to support growth as long as income exceeds operating costs.

The spread is called profit. We should be using the same concepts in government. We should be stimulating the economy to increase income. This way, we could have a surplus of government profit, or at least, a balanced budget.

Moreover, these Federal policies are forcing State and localities to cut back their investment-type outlays as well. By one estimate, State and local government revenues were reduced by $27 billion in 1975 due to the recession. And each 1 percent of excess unemployment will reduce State and local revenues by an additional $6 billion this year.

In a related matter, in Pennsylvania alone, unemployment benefits are costing more than $1 billion a year. Just think what we could do to stimulate the economy if we could invest this $1 billion in productive jobs. But because of mismanagement here in Washington, we can't make those investments.

Now, I would like to say for the record that because of prudent management by my administration over the past 5 years, Pennsylvania is in good fiscal shape. We have cut costs, streamlined government operations, and, for the fifth straight year, I have proposed a budget which requires no increase in income, sales or business taxes.

Our bond rating have improved steadily and if the national economy improves I see no fiscal crisis on our state's horizon. I am proud of that record, for I think that my administration has done all that can be reasonably expected to reduce costs and still deliver needed services to our people.

But we still have some very serious problems for a heavy production state, where unemployment is 8.5 percent in Pennsylvania, and unemployed workers are exhausting their benefits at a rate of nearly 100,000 a year. Moreover, inflation and recession have forced us to limit outlays in State programs to the point where we are not even keeping up with rising costs.

Like other States, we are building few, if any, new highways, and little additional housing for our citizens. Our major cities could be rebuilt through a major investment program, but neither the cities themselves, nor the States, have the resources to do the job.

My proposed State budget for the next year contained an overall spending increase of less than 4 percent, half of the rate of increase in the cost of living.

Like other States and localities, we cannot spend more than our revenues. When the national economy goes flat, we cannot increase our investment outlays to help put it back on course.

The Humphrey-Hawkins bill addresses these problems by requiring the President to prepare a countercyclical employment program and to consider stand-by public works programs and an antirecessionary grant program to States and localities.

I want to voice my strong support for this aspect of the program, but I also want to point to three other areas which should be examined as part of any program to enhance the viability of our States and cities.

Although I will not discuss them in detail, I think that programs should be adopted for the following: Assure continued access of States and localities to the money markets at reasonable rates; reform our welfare system by federalizing it: and, refinance education so as to eliminate the property tax burden for education.

I think these programs are essential for any program of long-range economic progress in this nation. Jobs which could be created through these programs need not be make-work jobs. We have more than enough productive work to keep millions of people occupied for years building up the intrastructure and improving the quality of life in this Nation.

That certainly is more equitable than confining these people to unemployment and welfare programs. And, in the long run, public sector investments which employ these people will pay large returns by increasing the productive capacity of the nation and reducing social costs.

I say let 1976 be the year in which we make firm our commitment to put America back to work. Let it be the year in which we resolve to begin building a better nation for our children.

And let it be the year in which we draw the line unmistakably between the errors and mismanagement of the present and the potential of the future.

Prompt passage of the Humphrey-Hawkins Full Employment Act will etch that line indelibly and let us begin moving forward again.

Mr. Chairman, I wish to thank you for this opportunity to testify and I will certainly be glad to answer any of your questions.

Mr. Daniels. Governor Shapp, on behalf of the committee I want to express our thanks for your fine comprehensive statement in reference to this important bill, H.R. 50.

Governor, yesterday we heard testimony from the Federal Reserve Board Governor, Charles Partee, who said we should not establish specific numerical goals because, to establish a definitive goal would also require responsibility for attaining such a goal. Do you agree with that statement, and if not, what would you recommend?

Governor **Shapp**. I definitely do not agree. I think, as we start our third century our forefathers would probably be turning over in their graves if they thought we would be adopting any kind of policy that precluded a large number of our citizens from benefiting in the American system. Yet that is exactly what that policy would do.

In the first place, I think that fiscal and monetary policy has to be changed in this country so that it is used to stimulate the economy and, as I pointed out in my text, this can be done.

I think that the Federal Reserve has been greatly responsible for the problems we have had with high unemployment in this Nation and the continual stagnation of our economy. In November 1965, using the excuse that they wanted to stop the flow of money from the United States to Europe because they had higher interest rates over there. The Federal Reserve Board tightened the money supply and raised the rediscount rates.

They set off the present wave of inflation with that act, and have compounded the error four times since then. They have done the same thing, every time trying to control inflation. And these very acts create the inflation and have created the high unemployment.

So, I think their policies are clearly out of step with what is necessary. And what they have just advocated as a principle I think is out of step with American tradition.

Mr. **Daniels**. Governor Partee also testified that if the Federal public employment programs paid the prevailing wage as defined by the Davis-Bacon Act, or the Federal minimum wage, or the State and local minimum wage, or the prevailing wage in State and local government, that people working in the private sector would be enticed to leave their positions in the private sector in search for higher paying jobs in the community.

What are your thoughts on this subject?

Governor **Shapp**. First of all, I never considered it a bad principle in this country for a person working for one salary to try to find a better job where he could make more money.

When I was running my own business I consistently found it profitable for our company to keep our trained people by making sure they had adequate compensation. And so I don't think what they are talking about would happen because I believe many of the people who are looking for work at the present time and need training would go into the job markets that are created by this bill and those who have better training and have greater desires would certainly seek other jobs.

Some of those who are in private employment, if they are making low wages, would seek to find jobs that would be paying more money. I see nothing wrong with that. I think that is something that goes on all the time.

To use that as an excuse for not stimulating the economy begs the issue because what it says is we don't want full employment so we can keep the wages low. I think that is exactly the opposite of the approach we should be taking in this country.

Mr. **Daniels**. Thank you for that answer.

Do you think the goals of full employment and price stability are attainable simultaneously?

Governor SHAPP. Yes, I do. I think full employment is an essential ingredient of our economic policy. I believe that price stability will come about through several factors. First, what I indicated before, if the Federal Reserve will maintain low interest rates and also an adequate money supply they won't be forcing businesses to raise prices because they have to pay more to get money.

This is one policy that could be followed. I just don't think necessarily full employment and price stability are incompatible. I think we should be able to maintain both.

Mr. DANIELS. The previous witness, Professor Hall of MIT, and a witness yesterday indicated that while the goal of full employment, as specified in this bill, could be achieved but, on the other hand, it could not be sustained or maintained for a long period of time.

What is your view on that?

Governor SHAPP. Again, I will go back to a thesis I expounded a moment ago. If this Nation were at war there would be no reason why we couldn't sustain full employment in the country for as long as we are at war.

We are at war, but it is an internal war not an external war. We have an internal war to make sure the American system delivers what it should deliver to our people. One of those is the opportunity to a full life; that includes the opportunity to have an education; it includes the opportunity to get proper training and then to be able to use the education and training to work productively in support of family.

And so, I think we have to carry through on this type of program and recognize the national security of this Nation internally is just as important as externally. Unless we take these steps so that people can enjoy full lives and look forward to a better future then we are weakening the internal structure of our Nation.

We can do these things. We can stimulate the economy. We can keep our people busy for decades just rebuilding our cities, if nothing else, just tearing down the slums and putting up new buildings. And it is a paying proposition because over the years, on an investment basis, you will get your money back in rents for these buildings.

You will be paying workers then collecting taxes from them. They will go off unemployment compensation and welfare. As an example I have a program here, just on railroads. It calls for the establishment of a Rail Trust Fund.

The data I present is 2 years old but it can be modified for the increase in inflation. Under this program we could rehabilitate all the railroads in this country, modernize them with new track, electrify the main lines, new classification yards, new signaling equipment, the whole works for $13 billion.

We could put 300,000 people to work for 6 years. These people would be paying taxes instead of drawing unemployment compensation or welfare so that you increase your revenues on the budget side and you reduce your operating cost.

Then, with a small surcharge on a freight bill, around 4 to 5 percent over a 20- or 30-year period, you can pay for the whole rail modernization program the same as you paid for the Interstate Highway System through the Highway Trust Fund.

You would get a new modern rail system, have lower inflation because you cut down the cost of shipping. Freight rates, at the present time, are going to go up maybe 40 percent in the next 3 years because of the dilapidated shape of the railroads.

With a program like this you make money. It is an investment program that any business would entertain. This is the type of thing we should be doing in this country. You put people to work improving the intrastructure of this Nation.

That way, you increase productivity, control inflation and create jobs and have a better nation.

Mr. DANIELS. And similar programs could be provided in the area of transportation and housing as well.

Governor SHAPP. Absolutely. You could just take your housing programs for all your cities and in your rural areas as well, by the way, because some of the most delapidated housing is in the rural areas of America.

You could finance this housing either through a public basis or by furnishing the money to private enterprise under stipulated terms and put up new housing with mortgages of 25 to 30 years.

You would put millions of people to work and have a bettter Nation. These programs call for a national investments policy and I think this has to go along with the present bill.

Mr. DANIELS. One further question, Governor. Section 104 of this bill requires the President to submit to Governors of each State copies of the full employment and balanced growth plan. Within 60 days, the Governor may submit a report containing findings and recommendations regarding the proposed plan. Is this a reasonable time period to expect you and the other Governors to be able to assemble the reaction of your States since the bill would require the Governor include views and comments of citizens within the State after the holding of public hearings?

Governor SHAPP. Sixty days would be reasonable if you just wanted to report back from a State. But if you wanted to report in depth whereby you are getting citizen participation, it can't be done effectively in the 60 days.

I think you would take at least a 6-month period to accomplish that. But if you were to send me, as Governor of Pennsylvania, a request to give you an outline of what can be done in Pennsylvania, we could prepare such a draft for you within 60 days, outlining what our problem areas are and what would be the first, second, third, fourth and fifth priorities in order to start moving in this type of program.

Mr. DANIELS. You would then recommend a longer period of time?

Governor **Shapp**. I would recommend a longer period to do what you want, but do it in two steps; keep your 60 days for your tentative program and then, after you have that, have us continue working to get the program refined in greater depth.

Please don't get us into an environmental impact statement type of operation or you will never get this program off the ground.

Mr. **Daniels**. Can you suggest any other modifications or improvements in this bill, H.R. 50?

Governor **Shapp**. I think this bill, as you have it, starts moving in the right direction. As I indicated here, I think we have to go farther than this bill to accomplish the goal of full employment on a continuous basis. What I would like to see done is a change of budgeting system of the United States so that we have a capital budget wherein items that are for long-term growth are segregated from the operating costs, just as is done in preparation of a business budget.

When you do this, then government would amortize its investments each year, just like business does. Operating deficits would most likely disappear because right now we are mixing long-term investments with operating costs.

I addressed the top officials of A.T. & T., about 5 or 6 months ago, and said to them that if A.T. & T. operated on the same budgeting principle as the United States, we would still be using crank telephones in this country because there is no way you can make a long-term investment in buildings and equipment and amortize it over 1 year as we are forced to do so with our present Federal budget.

Again, I just refer all of you back to the speech by John Kennedy at Yale in June 1962, in which he came out for this national investment and capital budgeting proposition. I think it is fundamental to long-term growth of this country.

Mr. **Daniels**. Governor, the Chair will have to call a brief recess. The clock indicates there is a vote taking place on the House floor on a very important bill on military appropriations.

We will go over to respond to this call and be back promptly, I assure you, in a few minutes. I am sorry for the interruption.

[A recess was taken.]

Mr. **Daniels**. The subcommittee will come to order.

Governor Shapp, in the course of your testimony you made reference to a study that you caused to be made regarding the railroads.

Governor **Shapp**. Yes.

Mr. **Daniels**. Do you have a copy of that which you could leave with the committee that we might incorporate in the record?

Governor **Shapp**. I will be very glad to submit this copy.

Mr. **Daniels**. I appreciate having this, May I ask unanimous consent that the study pertaining to the railroads prepared for Governor Shapp be made a part of the record.

[The document referred to follows:]

A UNITED STATES RAIL TRUST FUND

PRESCRIPTION FOR MODERN RAIL TRANSPORTATION

Milton J. Shapp
Governor
Commonwealth of Pennsylvania

A
UNITED STATES
RAIL TRUST FUND

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Milton J. Shapp
Governor

with staff assistance of the Office of State Planning and Development
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Jacob G. Kassab, Secretary

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The data, statements, findings, conclusions, recommendations, views, and opinions expressed herein are those of the Commonwealth of Pennsylvania and do not represent the positions of the Department of Housing and Urban Development, the Appalachian Regional Commission, or the Department of Commerce, Economic Development Administration, with respect to matters stated herein.

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THE RAIL TRUST FUND: A NEW FUTURE FOR AMERICA'S RAILROADS

The nation's railroads are an irreplaceable public asset. For more than a century they have been the backbone of America's economy, and now, more than ever, they are essential for continued growth and prosperity.

Ironically, while we have lavished public support on the rest of our nation's transportation system, through Federal and state aid for highway, water and air transportation, we have all but ignored the railroads.

Actually--and surprisingly in view of the need--the transportation legislation that has been passed by Congress, and most decisions rendered by the Interstate Commerce Commission have been directed toward reducing rail service in the nation rather than increasing and improving it.

As a result, our nation's rail system is far from healthy. Neglect has been the rule rather than the exception, not just among bankrupt eastern railroads but across the nation. Deteriorating track, a chronic car shortage, and poor service have generated millions of dollars in unnecessary costs for America's shippers--and ultimately for the consumer as well. This is a hidden, but none-the-less important, factor in creating inflation in America since the cost of transportation is a major part of the total cost of producing goods.

And the rail industry itself--once a giant of profitability--is now characterized by high costs, low earnings and bankruptcy or near bankruptcy of some of its major companies.

America's railroads are at a crossroads: either a means must be found to revitalize them or the nation will be forced into a program of massive public subsidy or even outright public ownership. Neither alternative is attractive.

The Rail Trust Fund is a proposal to overcome this neglect, to modernize and equip railroads to furnish the high quality of service the public requires.

The Rail Trust Fund **is not** a proposal to nationalize railroads. It is not a government takeover.

The Rail Trust Fund **is not** a device to restructure, merge or splinter existing railroads.

It **is not** a subsidy program for railroads.

Rather, the Rail Trust Fund would be a government-sponsored, self-liquidating investment program which would enable privately-owned railroads to obtain sufficient funds to modernize and expand all of their facilities in order to better serve the public.

It provides the means of channeling about $12.9 billion into track and yard improvements, electrification, and rolling stock purchases over a six year period. Repayment will come from a five percent surcharge on rail freight revenues (taking half of the recently-approved temporary ICC rate increase). The $12.9 billion will be capitalized and financed over 30 years so that the improvements can be completed in a matter of years--not decades.

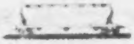
Most of the grants from the Trust Fund will be made to railroads in proportion to the amount of the surcharge they collect. Each railroad can spend its grants on deferred maintenance as well as approved modernization projects, such as track, electrification, yard and terminal improvements. These will be based on the railroad's own needs and priorities.

The Fund will also provide a source of low-interest loans for purchase of new and rebuilt rolling stock for both railroads and their jointly-owned car pooling companies.

In many ways the Rail Trust Fund builds on the undeniable success of the Highway Trust Fund. Like the Highway Trust Fund, it provides a long-term commitment to invest in a vital segment of the transportation system. It provides a sure source of funds, just as the gasoline tax does for highways. And like the Highway Trust Fund those who benefit--the users--pay the costs.

Just as the Highway Trust Fund, from a small beginning, forged a modern, high-speed road network spanning the continent and reaching previously isolated communities, the Rail Trust Fund can provide the impetus for a modern rail network to speed the movement of goods and passengers throughout all of the United States.

The potential benefits of the Rail Trust Fund are enormous. For shippers, improved rail service using high-speed main lines and modern yards and terminals will mean lower costs. Railroads can achieve renewed profitability by attracting more business and handling it less expensively. And the public can be assured of a truly balanced transportation system to carry us into the 21st century.



TRUST FUND AT A GLANCE

What will the Trust Fund do?

It will make $12-$13 billion of grants to the nation's railroads for improvements in track, yards and other facilities over a six-year period.

Where will the money come from?

All railroads would collect and pay into the Fund a five percent surcharge on freight revenues. Thus, like the Highway Trust Fund, users pay. The general public doesn't. In turn, the surcharge will be used to pay off government-backed obligations financed over 30 years.

Are all railroads eligible for Trust Fund grants?

Yes. All railroads would be entitled to Trust Fund grants for rehabilitation and modernization projects in proportion to their surcharge collections.

How would the money be spent?

According to the railroads' priorities. Our estimates suggest the following needs:

Rehabilitation of Road and Track	$6.9 billion
Electrification	3.2 billion
Modernization and Expansion of Roadway and Structures	1.9 billion
Modernization of Yards	0.9 billion
TOTAL	**$12.9 billion**

What about the car shortages?

A $1 billion revolving loan fund would be created in the first two years to finance rolling stock purchases to help ease these shortages. The basic surcharge will be sufficient to create this fund also.

RAIL TRUST FUND IS A GOOD REMEDY FOR INFLATION, FOR THE ECONOMY AND FOR INCREASING EMPLOYMENT

The Rail Trust Fund--a program of prudent investment--is a good prescription for the economic ills of double-digit inflation.

Railroads are so basic to the nation's economy that the economy cannot prosper while the railroad industry is ill. Huge unnecessary costs have been added to the nation's transportation bill because of poor track, archaic yards and terminals, and poor utilization of freight cars. These costs can be reduced drastically by increasing investments in the railroads.

Capital made available through the Rail Trust Fund will allow clearing the maintenance deficit, modernizing yards and terminals, and rebuilding roadway. Electrification will allow significant operating economies and encourage sharing of facilities--and costs--by freight and high-speed passenger service. The Rolling Stock Revolving Fund will provide financing for rolling stock and motive power purchases.

Lower operating costs to the railroads will be one result of this program. A second result will be increased reliability which will allow shippers to plan their output more efficiently and to cut back on inventories--and their carrying costs.

All of these factors will work to **slow** the tendency to rising prices in the economy.

Nor will Trust Fund expenditures themselves be inflationary. Compared with gross private sector investment of more than $200 billion annually and a Federal budget of $300 billion a year, Trust Fund outlays are indeed small. The $860 million called for in the first year of the program is only 0.4 percent of private investment in the nation.

WHY A TRUST FUND?

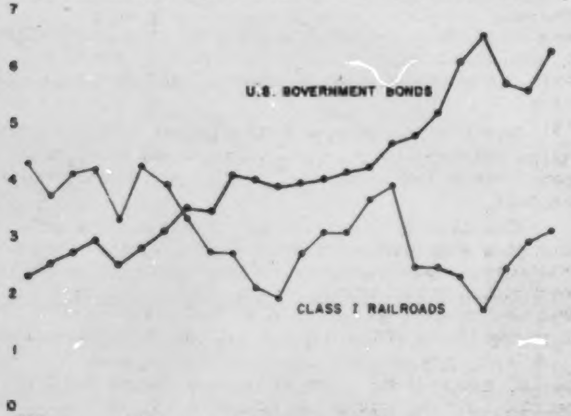
The railroad industry needs more capital than it can raise either internally or in today's money markets. Projects of unquestioned financial benefit--electrification of heavily-used routes, modernization of yards and terminals, acquisition of new and dependable rolling stock--are regularly postponed by railroad managements because of their limited ability to raise the necessary capital.

Low Rate of Return

Among the reasons for this state of affairs is the low rate of return on investments in railroads. Since 1957, for example, the rate of return on capital invested in railroads has been consistently below the "no risk" average return on U.S. Government bonds (Figure 1).

FIGURE 1

UNATTRACTIVE RETURN ON RAILROAD INVESTMENT



Source: AAR; 1973 U.S. Statistical Abstract

The rate of return on net investment in Class I Railroads fell below the rate on U.S. Government bonds in 1957 and has continued lower than this "no risk" rate ever since, thus proving unattractive to investors. This has slowed the flow of new capital into railroads.

No industry can keep pace with a developing economy if it does not or cannot make the capital investments required for replacement and modernization and expansion. Failure to replace plant and equipment as they wear out has produced skyrocketing costs in the railroad industry. These costs are being paid by railroads, shippers and consumers. At the same time, the absence of investments in expanding facilities has been a severe limit on growth in the industry.

While there are disagreements about why railroads are in this predicament, there is wide agreement that railroads are capital starved when compared with the work they do for the nation.

Low Maintenance and Capital Spending

This is amply demonstrated by the decline in railroad outlays for maintenance of way and capital expenditures per unit of railroad work (the gross ton mile).

As Figure 2 indicates, railroad expenditures on maintenance of way and structures per gross ton mile have declined throughout most of the fifties and sixties. Only in recent years have carriers begun annual maintenance efforts approximating needs. Yet the two decades of neglect are not being overcome, and we are actually falling further behind the need.

Nor during this period is it proper to assume that railroads became more capital intensive and therefore more productive so that less annual maintenance investment was required.

Capital expenditures for roadway and structures have not kept pace with price rises and increases in railroad output. While gross expenditures have increased rather steadily, from $286 million in 1950 to $449 million last year, Figure 3 shows that after inflation and a rise in railroad gross ton miles are accounted for, the 1973 outlay is only 60 percent of that in 1950.

While it is true that ton miles have increased over this period, many of the costs of moving freight have risen spectacularly and service has often been reduced. In addition, railroads have lost their ability to compete for high value shipments where speed and reliability of delivery are important.

That railroads have continued to operate as well as they have under these circumstances can be explained less in terms of economics than by tradition, determination and ingenuity of railroaders themselves.

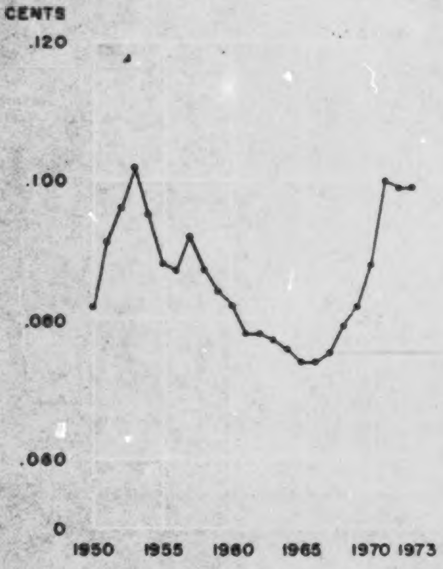


FIGURE 2

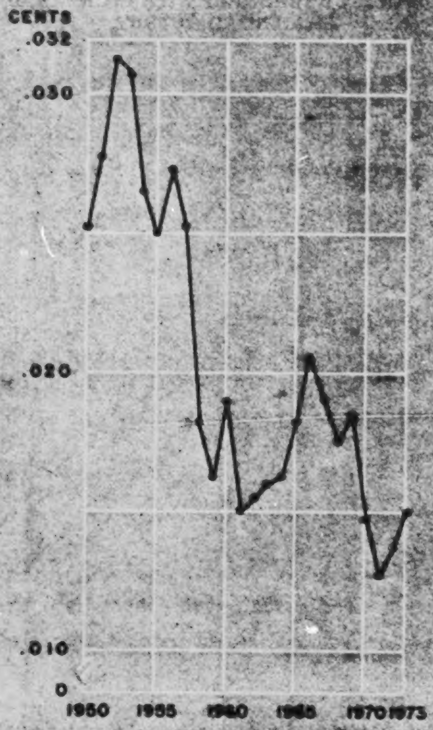
MAINTENANCE OF WAY EXPENDITURES HAVE SHOWN AN UNEVEN PATTERN, BARELY KEEPING UP WITH INCREASED RAILROAD OUTPUT.

Source: AAR

Maintenance of way expenditures by the nation's railroads have increased steadily in the 1950-1973 period. But they have not always kept pace with growth in railroad output. Maintenance of way per gross ton mile dipped after 1954 and did not regain its former level until 1971. This is one indication of the extent of the railroad maintenance deficit.

FIGURE 6

RAILROAD CAPITAL SPENDING FOR ROADWAY AND STRUCTURES HAS FALLEN BEHIND PRICE RISES AND INCREASING RAILROAD OUTPUT



Source: AAR; Pennsylvania Office of State Planning and Development

Gross capital expenditures for roadway and structures by the nation's railroads have risen over the 1950-1973 period. But when price rises and increases in railroad output are accounted for, the trend is downward. Spending (in 1958 dollars) fell from .025 cents per gross ton mile in 1950 to .015 cents in 1973.

The reasons for spending less for necessary upkeep are fairly simple. As most people involved with railroads know, railroad accounting methods adopted by the ICC treat the installation of ties with a 35-year life and rail with a 60-year life as a current expense rather than as a capital investment. By contrast, under generally accepted accounting procedures a business would depreciate the value of these assets over their useful life.

TIE REPLACEMENT ON MOST OF THE NATION'S RAILROADS HAS NOT FULFILLED NEEDS

AVERAGE TIE RENEWAL 1968 – 1972

AVERAGE TIE REPLACEMENT GREATER THAN NEEDS	AVERAGE TIE REPLACEMENT LESS THAN NEEDS
KANSAS CITY SOUTHERN MISSOURI PACIFIC NORTHWESTERN PACIFIC ST. LOUIS SOUTHWESTERN TEXAS & PACIFIC	20 WESTERN DISTRICT R R'S
AKRON, CANTON & YOUNGSTOWN CHICAGO & EASTERN ILLINOIS RICHMOND, FREDERICKSBURG & POTOMAC	27 EASTERN DISTRICT R R'S
FLORIDA EAST COAST NORFOLK SOUTHERN SEABOARD COAST LINE SOUTHERN SYSTEM	4 SOUTHERN DISTRICT R R'S

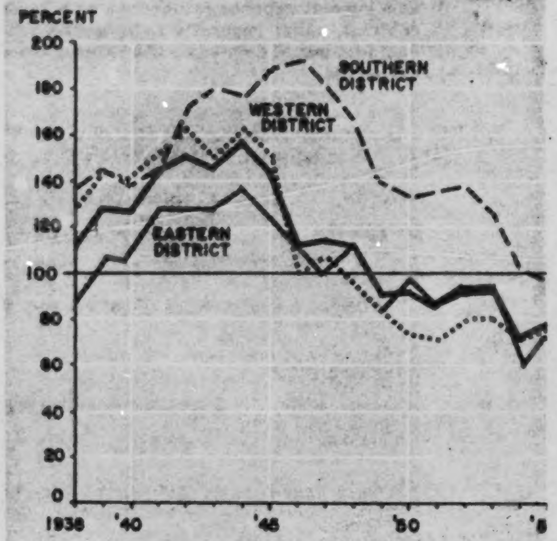
Source: Calculated from AAR data.

Assuming a 35-year-tie life, only 12 of the nation's Class I railroads met annual replacement requirements in the 1968-1972 period. A normalized maintenance schedule would have suggested replacing at least 14.3 percent of ties in this period. All but 12 railroads replaced a smaller share of their ties.

The ICC procedures have obvious income advantages, but have encouraged railroads to defer necessary replacement of ties and rail in years when business is down in order to maximize the profit shown on financial statements. Normal and necessary maintenance is deferred so that railroads still appear attractive to investors.

FIGU

CROSS TIE REPLACEMENT FAILS T
REQUIR



Source: "Estimate of Deferred Maintenance in Track
(Study prepared by Thomas K. Dyer, Inc. for FRA).

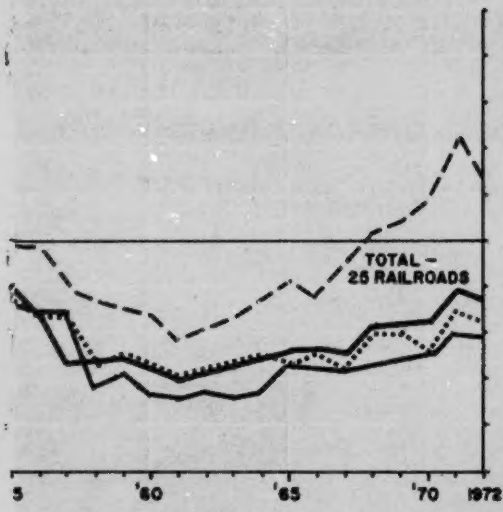
New cross ties installed are shown here as
based on an average life of 34 years for tre
District railroads (four southern railroads a
replaced cross ties at or above the normaliz

Cancer of Deferred Maintenance

This practice has fed the cancer of deferred maintenance, a problem throughout the railroad industry. In recent years only twelve of the nation's 63 Class I railroads have renewed railroad ties at a rate greater than normal replacement needs.

RE 4

O KEEP PACE WITH NORMALIZED
EMENT



laterials for Twenty-five Railroads."

. percent of the estimated number required,
.ted ties. In recent years only the Southern
re included in the 25-railroad sample) have
d replacement rate.

Since 1968, fifty-one of the nation's Class I railroads have not met normalized replacement needs.

In a recent study of tie and rail replacement needs made for the Federal Railroad Administration by Thomas K. Dyer, Inc., twenty-five of the nation's Class I railroads (representing

71% of all Class I mileage) were analyzed. Results of that study illustrate that contrary to popular myth, the nation's railroads were well-maintained during World War II (Figure 4). Not until 1949 did overall tie replacement fall below normal replacement needs. Even then, Southern District railroads continued tie renewal at or above annual requirements until 1955.

REGIONAL RAIL REORGANIZATION ACT OF 1973 WILL NOT SOLVE RAILROAD PROBLEMS

The Regional Rail Reorganization Act of 1973 does not provide a solution to the plight of the presently-bankrupt railroads in the Northeast-Midwest Region.

The Act provides $1 billion for Conrail, half of which must be used for rehabilitation and modernization of properties it acquires. An additional $500 million is provided for loans by the United States Railway Association for implementing the Act.

By almost unanimous agreement among the railroads, government and private transportation analysts, this is not enough money to do the job. The FRA-sponsored maintenance deficit study by Thomas Dyer, Inc., examined railroads representing 86 percent of the track mileage in the District and found a maintenance deficit that would cost $2.1 billion to correct. Expanding this to cover all Eastern District carriers raises the total to $2.4 billion.

Penn Central has estimated a current deficit of $562 million for their proposed 15,000 mile core system alone. Add to this their estimate of $156 million for maintenance of equipment deficiency and $565 million for needed service improvement expenditures and the total comes to $1,283 million.

Using these figures, the First National City Bank analysis of the proposed Conrail system estimated it would suffer a total capital deficiency of just under $2 billion which it would have to try to raise in the capital markets. This included capital requirements of $3 billion for acquisition and working capital and new equipment.

This estimate by Citibank represents a strong vote of no-confidence in Conrail by the private financiers and effectively closes off private capital as a source of rehabilitation and modernization funds.

Tie Replacement Needs

Thereafter, deferred tie replacement became a nationwide railroad malady. It is perhaps coincidental that this was one year before enactment of the Interstate Highway System which so successfully boosted truck competition.

Not until thirteen years later, 1968, did the Southern District railroads again undertake large tie replacement programs which have continued through the present period and have erased that District's tie deficit.

Summary of First National City Bank Estimate of Projected Cash Requirements and Authorized Financing of Conrail (Millions of Dollars)

Cash Requirements	
Maintenance of Way Deficit	$ 562
Maintenance of Equipment Deficit	156
Service Improvements	565
New and Rebuilt Rolling Stock	1.010
Working Capital	300
Sub-Total	**2,593**
Acquisition	3,000
Total Requirements	5 593
Authorized Sources	
Debt	1,100
Common Stock (for acquisition)	2,500
Total Sources	**3,600**
Deficit to be financed from private Sector	(1,993)

Source: Affidavit of John W. Imgraham, First National City Bank, before Penn Central Reorganization Court June 10, 1974, pp. 10, 13.

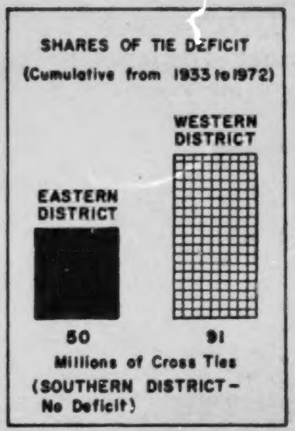
There is a second lesson in this analysis--that wholesale abandonment of light density branch lines will not restore the railroads' financial health. The Citibank estimate of capital requirements--which assumed a reduction of 8,000 miles from the present trackage--found a total capital requirement of $2.5 billion--one billion more than the total authorization under the Regional Rail Reorganization Act--just for roadbed, facilities, equipment and working capital.

Nor does abandonment provide the means of raising this capital in the private sector, since Penn Central has claimed only a "net annual benefit of $20 million" from abandoning 5,000 miles. This will have only a trivial effect on its profitability -- and hence on its ability to raise money in the private finance markets. Thus, even with wholesale abandonment, the Regional Rail Reorganization Act does not provide the capital to revitalize the bankrupt railroads.

Figure 5 illustrates the results of extrapolating from the 25 railroad study to all carriers. Since 1938, all Western District railroads have fallen 91.3 million ties behind in meeting normal maintenance needs while all Eastern District railroads, often

FIGURE 5

EASTERN DISTRICT AND WESTERN DISTRICT RAILROADS SHARE IN TIE DEFICIT



Source: "Estimate of Deferred Maintenance in Track Materials for Twenty-five Railroads." (Study prepared by Thomas K. Dyer, Inc. for FRA).

Fourteen Eastern and seven Western District railroads included in the 25-railroad sample have not replaced cross ties at the normalized replacement rate for more than 20 years. When the cumulative deficit is blown-up to represent all railroads in each district (see Technical Appendix), Western railroads are in need of 91 million ties while Eastern roads have a deficit of 50 million.

believed to be the most neglected, are 50.4 million ties behind in meeting normal replacement requirements. The bill for meeting this need was estimated at $3,214 million nationally of which the Western District railroads' share is $1,996 million and that of Eastern railroads $1,218 million.

Rail Replacement Needs

The rail deficit is similar according to the same study. As Figure 6 shows, Southern District railroads have been more aggressive in meeting replacement needs, but even they have a slight accumulated deficit. Since the late fifties, the nation's railroads have repeatedly fallen well below 100 percent of their annual requirements for replacement. In the late sixties Southern District railroads began spending more to overcome their accumulated deficit.

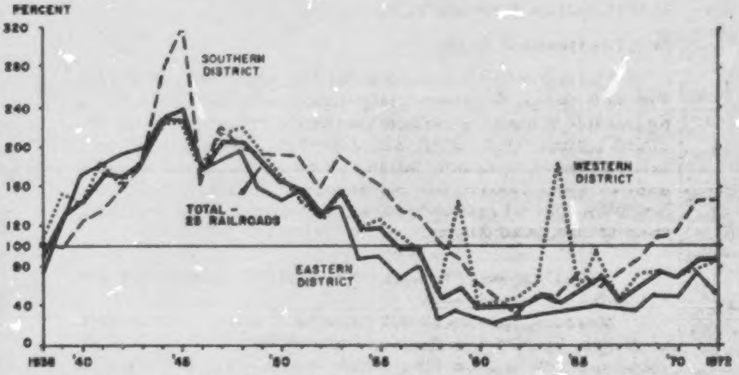
If the Dyer study results are extended to all railroads, the rail deficit is indeed large.

Measured in tons of rail required to reach a normalized condition, by 1972 the Eastern District was farthest behind, requiring 2.82 million tons which would cost an estimated $1,405 million (Figure 7). Western District railroads which have a smaller deficit would still need about 2.09 million tons of rail at a current cost of about $1,035 million while Southern District railroads, with only a 263,000 ton rail deficit, can be brought up to standard for about $128 million.

Thus the nation's rail system today needs about $5.8 billion just to replace worn-out rail and ties. Inflation increases this cost daily, and the six year Rail Trust Fund program to correct this deficiency would actually cost $6.9 billion when finished. Yet this investment is vitally needed because its absence is costly to the railroads, rail users and consumers of products moved by rail. The cost of not doing what is obviously necessary will be much greater and will represent a direct increase in inflation. Conversely, making the needed investments to rehabilitate and modernize the tracks will speed transportation and reduce the costs of rail operation.

FIGURE 6

UNDER-REPLACEMENT OF RAIL HAS BEEN NATIONWIDE



Source: "Estimate of Deferred Maintenance in Track Materials for Twenty-five Railroads." (Study prepared by Thomas K. Dyer, Inc. for FRA).

Main track rail installed is shown here as a percent of the normal requirement. Since the late 1950's most railroads in the sample of 25 have not replaced rail at the normalized rate. Since 1969 the Southern District roads have replaced rail at more than 100 percent of the requirement, but this has not been enough to wipe out the rail deficit built up in the district between 1959 and 1968. Western District railroads have replaced old rail in spurts, but not enough to prevent the build-up of a sizable rail deficit. And the Eastern District companies have under-placed rail consistently since 1954.

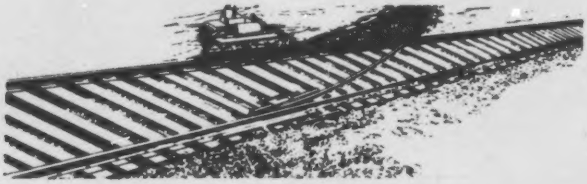
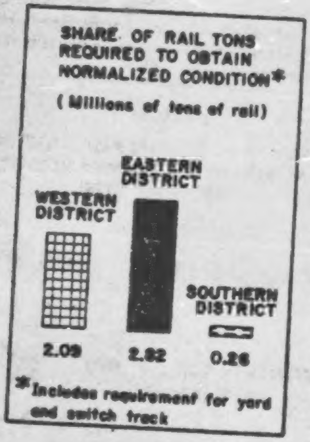
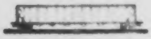


FIGURE 7
ALL DISTRICTS SHARE IN RAIL DEFICIT



Source: "Estimate of Deferred Maintenance in Track Materials for Twenty-five Railroads." (Study prepared by Thomas K. Dyer, Inc. for FRA).

The 25 railroads used in the Dyer study have failed to replace rail at the normalized rate since the late 1960's (with the exception of the Southern District railroads which have renewed their replacement program during the last four years). When the cumulative deficit is blown up to represent all railroads in each district (see Technical Appendix), Western District railroads require 2.09 million tons of rail, Eastern District railroads need 2.82 million tons, and Southern District railroads need to install 260,000 tons of rail to wipe out their deficit.

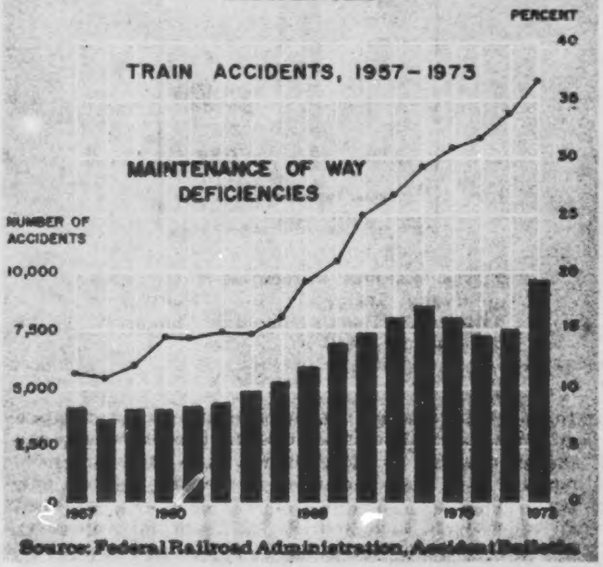


Train Accidents

Among the obvious effects of deferred maintenance are accidents that result from faulty equipment or inadequately maintained track and structures. Figure 8 indicates that since 1957 (when definitions of accidents were changed) there has been a steady increase in the proportion resulting from deficiencies in maintenance of way or structures--a rise from 11.2 percent in 1957 to 36.7 in 1973.

FIGURE 8

NUMBER OF TRAIN ACCIDENTS HAS RISEN AND MORE ARE CAUSED BY MAINTENANCE OF WAY DEFICIENCIES



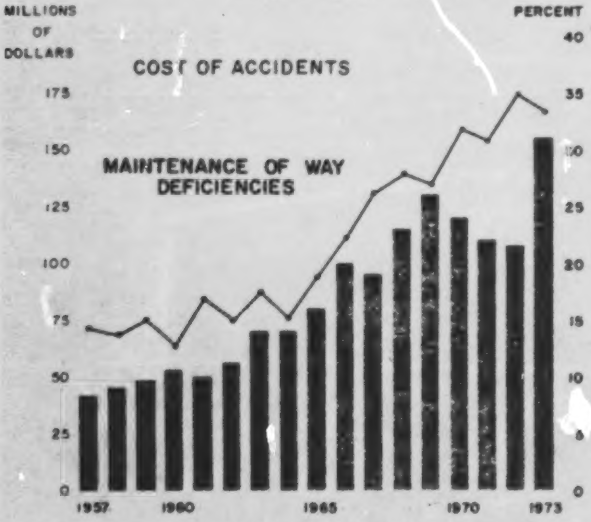
Source: Federal Railroad Administration, Accident Bulletin

The rise in the number of train accidents in the 1957-1973 period is at least partly due to the increasing output of railroads. Note that the share of accidents caused by maintenance of way deficiencies has skyrocketed, from 11 percent in 1957 to 37 percent last year.

The increasing costs of accidents, which are reported in current dollars, are explained in part by changes in the buying power of the dollar. But there is no equally simple explanation for the rising share of these costs attributed to deficiencies in maintenance of way or structures (Figure 9). Much of this increase is undoubtedly due to deferred maintenance.

FIGURE 9

COST OF TRAIN ACCIDENTS IS UP AND A LARGER SHARE RESULTS FROM MAINTENANCE OF WAY DEFICIENCIES



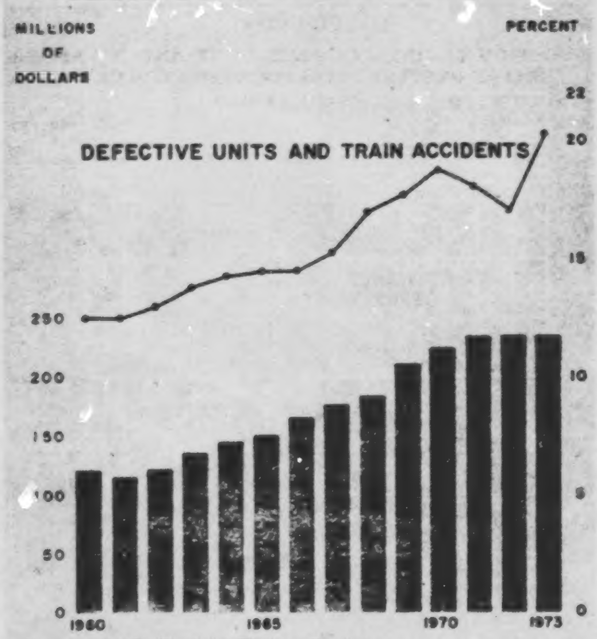
Source: Federal Railroad Administration, Accident Bulletin.

Cost of train accidents has more than tripled over the 1957-1973 period. Meanwhile the share caused by maintenance of way deficiencies has risen steadily from 14 percent in the first year to 33 percent in 1973.

In addition, the Association of American Railroads maintains records on the loss and damage to the contents of trains. Here again, as Figure 10 shows, the losses attributed to

FIGURE 10

LOSS AND DAMAGE TO FREIGHT CONTENTS HAS INCREASED AND A GREATER SHARE IS CAUSED BY DEFECTIVE UNITS AND TRAIN ACCIDENTS



Source: AAR, Freight Claims Division

Loss and damage to the lading of freight cars has increased from $120 million in 1960 to $232 million in 1973. The share caused by deferred maintenance--reflected in the losses from train accidents and defective units--has risen from less than 13 percent in 1960 to 20 percent in 1973.

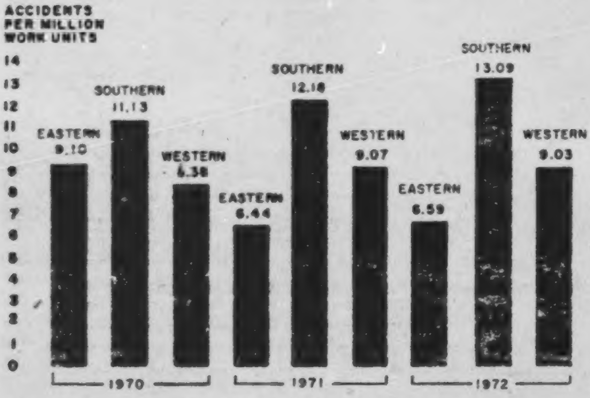
train accidents and defective units is a rising share of the total, which itself rose substantially during the sixties.

The cost of accidents is by no means limited to bankrupt Eastern District carriers. In fact, as Figure 11 indicates, in the 1970-1972 period, Southern and Western District carriers had far more accidents per work unit than those in the East. In spite of the dominance of bankrupt carriers, the Eastern District accident rate was as little as half of that of the Southern District, and 71 percent of that of the Western District.

All of this accident analysis simply reinforces the knowledge that deferred maintenance and overage equipment are costly to the entire railroad industry and to most shippers, and a contributing factor to inflation.

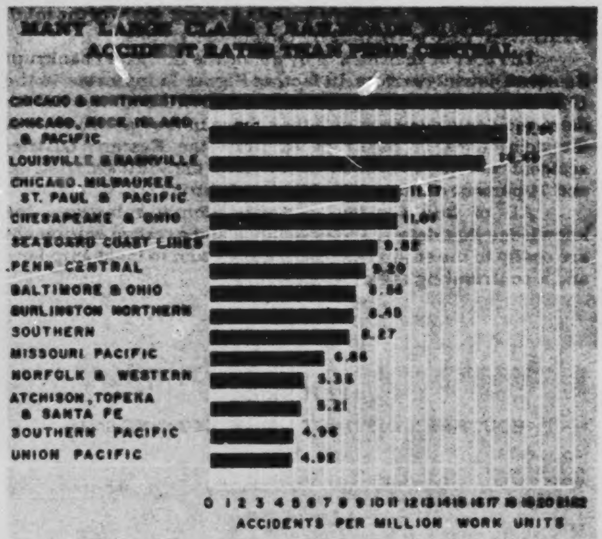
FIGURE 11

SOUTHERN DISTRICT LEADS IN ACCIDENTS



Source: Federal Railroad Administration

While Eastern District railroads, particularly those in bankruptcy, are thought to have the highest accident rates, both Southern and Western Districts were higher in both 1971 and 1972.



Source: Federal Railroad Administration

In the 5 year period, 1968-72, six of the nation's railroads with at least 5,000 track miles--three Western District, two Southern District and one Eastern District--had accident rates higher than Penn Central's.

No One Benefits From Deferred Maintenance

When the system does not function efficiently, everyone loses: the shipper whose customer is inconvenienced, the receiver whose business may be disrupted if products arrive damaged or late, the railroads which lose business because of customer dissatisfaction, and the general public when the costs of goods are inflated by increased transportation costs and rail car shortages.

Many of these factors are difficult to quantify. For example, "slow orders", the decisions to reduce speed limits on certain stretches of track for safety reasons, are known to be widespread in the Northeast, especially on Penn Central tracks. Some of these reductions are to 5 or 10 miles per hour, yet there is no readily available public documentation of where these slow orders are in effect or their cost.

For Amtrak riders who travel at 10 miles per hour through long stretches of Penn Central track in Indiana and arrive at their destination three or four hours late, the inconvenience of missed connections will always be difficult to calculate in dollars and cents.

To branch line freight users whose service is reduced from twice per week to once per week because it takes two crews to complete the round trip instead of one when speed limits were greater, the costs could be determined but it would be cheaper to improve the track than to make the necessary audits.

Rising Per Diem Payments

Another partially-hidden cost is the increase in per diem payments to owners of railroad cars for the additional time they spend on the lines of a poorly-functioning railroad. While it may appear that rail car owners benefit through receiving higher rentals, there is a fundamental loss to the whole economy by having rail cars idle.

Measured as a share of net railroad operating revenue, the net rents of railroads increased sharply between 1960 and 1972 (Figure 12). And while there are different explanations for this dramatically increasing trend, most of them can be reduced to two reasons: either railroads are unable to return cars efficiently to their owners, or they are unable to raise capital to purchase cars and must instead resort to use of cars owned by others to meet customer's needs.

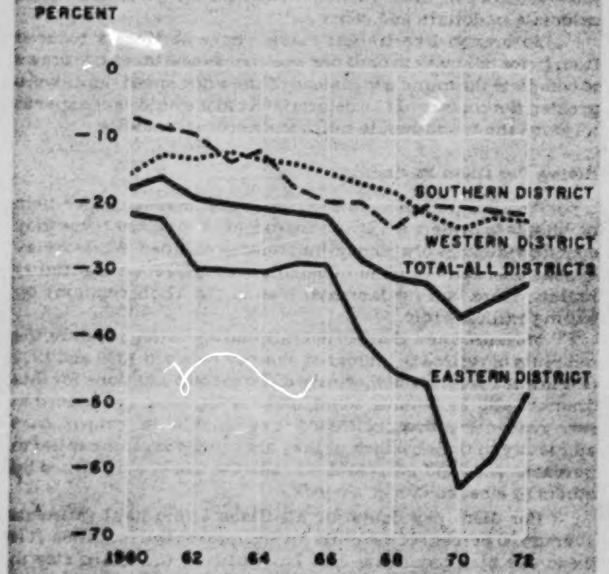
Per diem payments for all Class I line haul railroads average 90 percent of net rents for equipment and facilities. It is these car hire payments that have caused the sharp rise in equipment and facilities rents and which have resulted in large drains on railroad finances.

To be sure, the Eastern District railroads' net rent payments are distorted by the huge outlays of Penn Central. After the merger those costs skyrocketed and even exceeded net revenues during 1970 and 1971. The resulting acceleration of these increasing costs for the Eastern District caused by Penn Central is also reflected in the nationwide increase.

But even so, all districts are experiencing an increase in per diem costs--costs which can only be controlled through restoration of decent track conditions, purchase of new equipment, and modernization of yards and terminals.

FIGURE 12

EQUIPMENT AND FACILITIES RENTS EAT UP AN INCREASING PROPORTION OF OPERATING REVENUE



Source: ICC, Transport Statistics in the U.S.

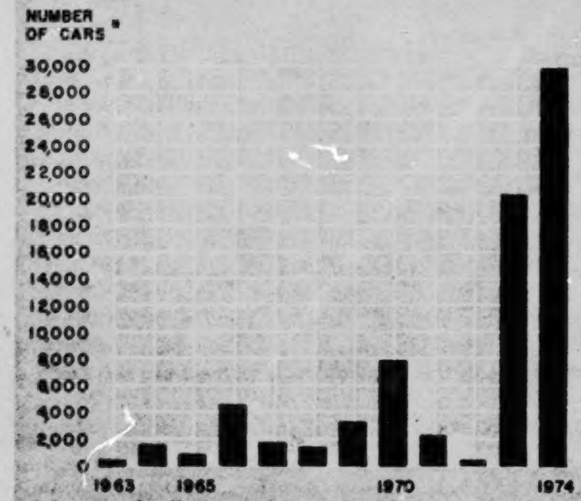
For the same 25 railroads used in the Dyer report, net rents for equipment and facilities (rent income - rent payable) have been calculated as a percent of net revenue from railway operations (railway operating income - expenses). Net rent payments in the Eastern District absorbed nearly half the 1972 net operating revenue while the 25 railroads together paid out about a third of their net revenue to equipment and facilities rental rather than investing in new equipment of their own.

Car Shortages

While high per diem costs reflect delays in returning cars to owners, the other side of this delay is reflected in their non-availability to rail users. Figure 13 indicates that the average daily freight car shortage of Class I railroads has varied widely--from a low of 225 in 1963 to a high of 42,534 in March of 1973. These shortages are subject to severe seasonal swings, as Figure 14 indicates, thus making it even more expensive for carriers to meet all needs at all times.

FIGURE 13

THE GROWING FREIGHT CAR SHORTAGE

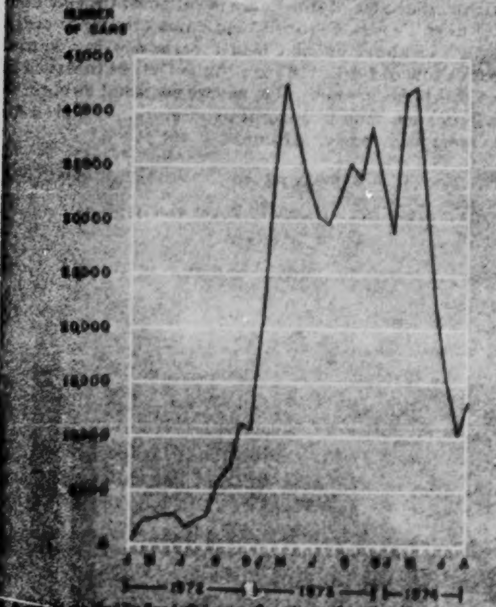


*** Average for first complete week of January of each year.**
Source: ICC; AAR.

The increased demand for freight cars of various types has far outstripped the supply which has suffered from too few purchases of new cars and a slow rate of rehabilitation of old cars. Federal Railroad Administration rules outlawing 50-year old cars will tighten the supply more.

FIGURE 14

SEASONAL FREIGHT CAR SHORTAGE



Average daily freight car shortage for the first week of each month.

Source: ICC; AAR.

The freight car shortage varies widely from month to month, with demand for most types of cars lowest in mid-summer. The extreme car shortages in 1973 were attributed to large-scale movements of wheat from the midwest to coastal points for shipment to Russia. With apparently more normal demand for freight cars in 1974, the car shortage at the beginning of August stood more than 10,000 cars above the [illegible] demand at the same point in 1973. Obscured by these [illegible] is the chronic shortage of coal hoppers which continued to increase while other shortages were abating.

Over a long period of time studies reported by the U.S. Department of Transportation and the Federal Task Force on Railroad Productivity revealed that the typical car cycle has increased from 16.6 days in 1947 to 25.6 days in 1972. Freight cars spend a third of their time in intermediate yards and almost as much time in carriers' terminals.

This comparison is the essence of the reduction in rail service to customers and the resultant increased costs due to the lowered utilization of equipment.

Perhaps this fact, more than any other, illustrates that deferred maintenance and the absence of modernization of yards and terminals are costing railroads and shippers dearly. Clearly, it is here that greater efficiency in the use of existing rolling stock is possible. For example, **a reduction of one day in the average car cycle--from 25.6 to 24.6 days--would equal an increase of nearly 70,000 cars to the nation's rail car supply.**

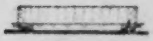
Roadway Modernization Needs

An inability to raise capital has also forced railroads to skimp on expenditures for other "betterments" to roadway and structures. Some heavily-used routes--often laid out a hundred years ago--are characterized by steep grades and sharp curves. Old bridges and trestles often impede operations, and in some cases are a threat to safety as well.

Modern construction techniques could overcome many of these problems, and allow railroads to benefit from operating economies as well. But funding problems have kept many of these projects from getting past the design stage.

Railroad expenditures for all roadway and structure betterments--including those to yards and terminals--averaged $382 million in 1969-73. This is only slightly higher than the $356 million spent for "betterments" in the 1950-54 period, which was a relatively prosperous one for railroads. But if one discounts the 1969-73 outlays to account for inflation and the increased amount of work the railroads now do (the latter measured in gross ton miles), expenditures in the past several years are seriously deficient. In fact, as Figure 3 illustrates, in the past five years these real expenditures have averaged only 53 percent of those in the earlier period.

The Rail Trust Fund would provide $2.9 billion over six years to return these outlays to their previous annual levels of spending. Of this, one-third, or $952 million, would be needed for yards and terminals and the rest for other betterments.



Car Supply Problems Cannot Await Modernization

While modernization of roadways, yards, and terminals will undoubtedly ease freight car shortages, those improvements will be years in coming. And at the same time there are other pressures, such as the outlawing of cars over 50 years of age, which will continue to reduce the car supply.

Currently, the nation's rail car manufacturers have a backlog of orders of a year or more. Car repair programs by the railroads themselves are returning some units to service and the AAR is at work devising means of improving use among railroads.

The AAR, in testimony before the Senate's Special Subcommittee on Freight Car Shortages last year, estimated that the railroads needed 100,000 cars to end the shortage. Figures compiled by the ICC and AAR indicate average daily

COPYING AN IDEA THAT WORKS: THE HIGHWAY TRUST FUND

Throughout the debate on ways to achieve good rail service, the most troublesome issues have been financial. How much public money is to be invested? Where will it come from?

The undeniable success of the Highway Trust Fund demonstrates that it is possible to raise all of the money needed to modernize the railroads, and to do so with a simple, widely-understood method, without a drain on the Federal budget.

The Rail Trust Fund is built on this lesson from the Highway Fund--and not on the common premise that a "cheap" solution to the nation's rail problems is all that can be afforded. It began with the calculation of the size of the job facing American railroads, just as the planners of the Interstate Highway System began by estimating the size and cost of a major road system for the nation.

Once the scope of the job was calculated for bringing American railroads up to needed standards, a schedule of work and means of financing were addressed--again, just as planners of the Interstate Highway System had done.

By earmarking highway user taxes on fuel, tires, accessories and the like, Congress created secure funding for that highway system. And Highway Trust Fund receipts have grown over the years from about $2 billion in 1958 to about $6 billion currently.

The Rail Trust Fund unabashedly copies this idea by proposing a user surcharge on the freight bill paid to railroads and earmarked for a special Rail Trust Fund. The size of the charge was derived from the size of the job that must be done and shortages of nearly 40,000 cars in the first quarter of this year.

It is probably impossible to get an exact accounting of the shortage--and even if one could, this would not be useful because car availability is so closely tied to car utilization.

The Rail Trust Fund, through its Rolling Stock Revolving Fund, would provide a line of low interest credit of $1 billion over the first two years to finance car and locomotive purchases. At today's prices this would pay for 20-40,000 cars and 750-2,000 locomotives depending on the mix between the two. After the first two years this line of credit could be expanded to $2 billion to finance additional rolling stock purchases.

The Rolling Stock Revolving Fund would also provide an incentive for the development of a national car pool fleet by financing railroad jointly-owned car supply companies.

it is to be paid by those who will benefit from improvements--rail users.

Thus, like the Highway Trust Fund, the Rail Trust Fund will not be an additional drain on the public treasury.

Actually, since the suggested rate is only five percent compared to the recent 10 percent surcharge approved by ICC, freight rates could be lowered at the time the Rail Trust Fund is put into operation.

Because the money is needed for immediate rehabilitation and modernization of existing rail facilities, not for planning, acquisition and construction of new routes, the Rail Trust Fund differs slightly from the Highway Trust Fund. Expenditures will be largely completed in its first six years and paid for over 30 years like other public improvements, rather than being paid for out of current revenues like the Highway Trust Fund.

But the many similarities between the Rail Trust Fund and the Highway Trust Fund are intentional. A simple solution that the public understands is necessary for today's rail problems, and a successful pattern like the Highway Trust Fund is more readily understood than a new complicated formula.

The Rail Trust Fund solution, like the Highway Trust Fund, is predicated on the provision of more and better rail service, not less, and it creates a financing scheme for attaining that laudable objective.

Incidentally, the principles involved in establishing the Rail Trust Fund are the same as those used by AT&T in planning for maintenance, modernization and expansion of the telephone system on the basis of need. Budgeting on the basis of need is the cornerstone of success of almost all businesses.

The Missed Opportunity of Electrification

Among railroaders the benefits of electrification on heavily used lines are well-known. Repeatedly engineering studies have demonstrated that the cost savings of electrification will more than pay the cost of the project, but because there are more pressing needs for the limited capital a railroad can raise, these projects have been put on a back burner by railroads.

A Government-Industry Task Force on Electrification recently analyzed the possibilities for electrification of American railroads and found 6,200 route miles where it would be clearly profitable. That study was completed before the Energy Crisis and the doubling of fuel costs that have hit many railroads.

The economies of electrification are widely agreed upon. They include locomotives with longer useful lives, lower maintenance and operating costs, higher reliability and greater overload capacity, shorter trip times and greater flexibility of speed, and energy from coal-fired power plants.

A technical study prepared for the Government-Industry Task Force on Electrification translated many of these advantages into substantial cost savings for the nation's railroads. Based primarily on 1971 data the study found it would be economical to electrify some 6,200 miles of the 14,300 mile heavy density system it analyzed. After allowing for a substantial return on investment, amortization of capital, and other expenses, the study concluded there would be a saving by the year 2000 of $360 million (discounted to the present) resulting from electrification.

Since the benefits of electrification are sensitive to changes in fuel prices--which have skyrocketed since the oil embargo--it is assumed that most of the nation's 14,300 mile heavy density freight network would now qualify for electric operation. The Rail Trust Fund would provide $3.2 billion over six years for these projects.

No Need For "Orange Lines" *

With passage of the Regional Rail Reorganization Act of 1973 a philosophy of retrenchment and tinkering, of dismantlement and merger, of cheap and simplistic solutions became the national policy towards railroads. It was a compromise among strong and divergent views where

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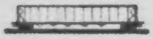
* Lines listed as "potentially excess" by the U.S. Department of Transportation under provision of the Regional Rail Reorganization Act of 1973.



ELECTRIFICATION HOLDS ENORMOUS POTENTIAL FOR IMPROVING RAIL SERVICE

Why Electrification?

For some shippers, and certainly for the general public, this is a critical question. Is electrification worth the several billion dollars it will cost?

The answer is a definite yes, and here are some of the reasons:

--Electric locomotives are less expensive to operate than diesel because they need less maintenance, maintenance is less expensive, and they are more reliable.

--Electric locomotives have a significant reserve potential for use on start-ups, grades, and in changing speeds. The result is shorter trip times and smaller locomotive fleets.

--High speed passenger service is most effective on electrified track. This is so because electric engines can achieve running speed more quickly, and are cleaner and more reliable than diesels.

--Electrification will provide a significant opportunity to use an energy source which is not petroleum based. It will enable a part of the transportation system to rely on coal, nuclear and hydro produced power instead of diesel fuel.

All of these advantages can lead to large cost savings for railroads--and ultimately for shippers and the consumer.

competing interests were not reconciled, and as constitutional challenges proceed through the courts there is widespread belief that major parts of the RRR Act will be ruled unconstitutional and sent back to Congress.

The first official action under the RRR Act was publication of "Rail Service in the Midwest and Northeast Region" by the U.S. Secretary of Transportation, a report that embraced the philosophy of rail dismantlement by recommending elimination of 25 percent of the region's rail mileage. (These lines were shown on maps in orange and thus became the infamous "orange lines" to the shipping public.)

In one step, the Department of Transportation made it appear that low density branch lines are the fundamental cause of railroad financial problems. Rail users along these lines who have received the poorest service, who have had the most difficulty obtaining cars when they need them, and who have been the worst victims of slow-orders and reduced frequency of service, were cast in the role of economic vampires who rob the system of its vitality.

Even Penn Central managers, who requested ICC permission to abandon 5,000 miles of track in 1973, proposed no such drastic abandonments as a solution to that railroad's financial problems. And Penn Central only claimed that abandonment of these 5,000 miles of lines would result in "a net annual benefit of $20 million", a fraction of that railroad's annual losses.

Publication of the Secretary of Transportation's Report caused a public outcry and has created a distrust of federal railroad planners that will take years to overcome. Few railroaders believe that massive abandonment of branch lines will effect important savings, while community and business leaders know that rail abandonment can cause substantial economic hardship.

If railroads in the northeast region had modern yards, track and rolling stock, the apparent losses of branch lines would all but disappear. The figures presented by Penn Central, the railroad with the most ambitious abandonment program, which claims such meager savings, verify the accuracy of this assertion.

The Rail Trust Fund can return attention to the more urgent issues facing railroads. It is intended as a solution to both mainline and branch line needs, and it does not depend on abandonments for its success.

Since rail users are paying for the Trust Fund (through the surcharge) they must be protected against indiscriminate abandonments. Trust Fund outlays will be available for clearing the maintenance deficit on branch lines, and thus costs related to poor track conditions and the expenses of branch line rehabilitation should not be accepted as justification for railroad abandonment applications. In addition, railroads should agree to a moratorium on contested abandonments until system-wide rehabilitation is completed, since this may lead to significant reductions in the railroad operating expenses both on and off the branch.

POTENTIAL RAIL TRUST FUND BENEFITS

Rail Trust Fund outlays undoubtedly will result in dramatic improvements in the finances of the nation's railroads. They will also increase rail productivity and produce significant cuts in railroad operating costs which can be shared by the carriers, shippers and ultimately the consumer.

At the very least these savings will provide a cushion against inflation-induced price rises. In some cases they will lead to actual cuts in the cost of providing rail service, in shippers' inventory costs, and in the final cost of products.

Lower costs, more efficient railroad operations and modern equipment will also lead to improved levels of rail service, enabling carriers to attract larger shares of business than they have at present.

Electrification Means Savings

Electrification alone can produce gigantic savings. The **Cost-Effectiveness Review of Railroad Electrification** study prepared for the FRA estimated a cumulative saving of $360 million discounted to the present by electrifying 6,200 miles of track. Clearly there are substantial additional savings possible merely by removing slow orders and improving equipment utilization.

The Trust Fund also holds other promises of a significant boost to railroad revenues. For example, in the Eastern District, modal splits for rail shipment for specific commodities and distances are often much less favorable to rail than in other districts. This may be attributed directly to the deteriorated condition and poor service of many of the Eastern railroads--most notably the bankrupt Penn Central. Rehabilitation of track, and streamlining of operations might well shift these splits to favor rail.

The potential for growth of rail service is substantial. The Task Force on Productivity cited data which indicated that many large shipments moving by truck in excess of 200-250 miles might move more economically by rail. Since the revenues generated by these movements in 1968 were nearly $5 billion, this represents a very large potential market for rail service.

More Revenue, Lower Expenses

Specific estimates of cost savings and revenue increases which could be produced by the Rail Trust Fund require detailed studies beyond the scope of this presentation. However, some idea of the potential for such changes--and their impact on the financial condition of the nation's rail carriers--may be gleaned from an examination of the composite revenue and expense accounts compiled by the ICC.

Table 1 presents some of these data for 1972. While the adjustments to railroad operating accounts illustrated are purely hypothetical, they do demonstrate that a modernization program can result in dramatic shifts in the railroads' financial condition.

Table 1

Potential Benefits of Trust Fund on Railroad Operating Accounts
Class I Line Haul Railroads
- Millions of Dollars -

	Actual Operating Accounts, 1972	Potential Savings Factor	Adjusted Operating Accounts
Transportation-Rail Line			
Superintendence	236	5%	224
Dispatching	67	5%	64
Yard Clerks and Crews	1,236	5%	1,174
Train Crews	1,393	5%	1,323
Clearing Wrecks	41	15%	35
Damages	229	15%	195
Injuries-Transportation	126	15%	107
Maintenance of Equipment			
Locomotive & Car Repair	1,345	2%	1,318
Sub-Total	4,673		4,440
Total Operating Expenses	10,530		10,297

		5% Larger*	10% Larger*
Freight Revenues	12,187	12,796	13,406
Operating Revenues	13,176	13,785	14,395
Operating Ratio	79.9	74.7	71.5

* Exclusive of Rail Trust Fund surcharge or any other rate increase.

Source: Actual data from ICC, Transport Statistics in the United States, 1972, Tables 160,161; Labor items are adjusted to include share of employe health and welfare benefits.

Actual operating accounts selected were those most sensitive to change through the effects of increased investment. Had the railroads been operating an efficient, modern plant with sufficient rolling stock in 1972, it would not be at all unreasonable to have expected five to ten percent more freight revenues (at then-current freight rates) than those actually collected. Substantial savings would have been possible in such accounts as clearing wrecks and damages to property and freight. Smaller, but significant, savings would have been possible in many of the other transportation accounts.

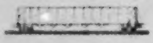
One key indicator of the overall change possible is the operating ratio (the ratio of operating expenses to operating revenues). Railroad analysts generally agree that a ratio of about 70 would provide railroads with healthy earnings, the ability to raise capital in private markets, and to expand investments in their rail operations. Not since the end of World War II have railroads approached this operating ratio; in the mid-1950's it approached 75, and has since trended upward to 79.9 in 1972.

Table 1 indicates that relatively small improvements in revenues and small decreases in selected costs could produce major changes in the operating ratio. These savings and five percent more freight revenue could generate an operating ratio of about 75, a level not seen in almost 20 years. A ten percent increase in freight revenues would mean a ratio of less than 72, a better performance than the nation's railroads have achieved within the last 30 years.

Railroad Incomes

A second area of large potential savings in the future is possible through better freight car utilization. The AAR argues that the nation's freight car fleet--1.7 million cars in 1973--should be augmented by up to 100,000 units to alleviate car shortages. There is no doubt that more cars are needed--and the Trust Fund would provide low-interest loans for their purchase. But track rehabilitation, modernization of yards and electrification should produce significant increases in car utilization, thus relieving railroads of part of the additional car purchases.

If, for instance, Rail Trust Fund-induced improvements bring about a three percent increase in car utilization, a 100,000 car deficit would be halved to 50,000 units. This, in turn, would obviate the need for railroads to purchase 50,000 cars, thus saving them $127.7 million a year in fixed charges. (This assumes an initial cost of $20,000 a unit financed at 9.5 percent for 15 years.)



Since the nation's railroads had fixed charges of $596 million in 1972, and income after fixed charges of only $342 million, this potential saving would indeed have a significant impact on the railroads' future income statements.

Such a radical turnabout in railroad finances, improved rail service, and lower railroad costs are not the products of a pipe dream. They can be the products of a prudent investment program--sponsored and guided by the public--but without any direct cost to government. This, then, is the Rail Trust Fund proposal.

OPERATING THE RAIL TRUST FUND

Here is how the Rail Trust Fund would operate:

1. All railroads would collect and pay into the Fund a five percent surcharge on freight revenues.
2. Trust Fund outlays would be funded by issuing government-backed obligations and would be financed over 30 years via the surcharge.
3. All railroads would be entitled to Trust Fund grants for rehabilitation and modernization projects in proportion to their surcharge collections.
4. A revolving loan fund would be available to finance rolling stock purchases.

Over the first six years, the Trust Fund would spend $12.9 billion for rehabilitation, electrification and modernization of the nation's rail system. The surcharge would be sufficient to finance these outlays, related administrative costs, and make the Fund self-sustaining. At the end of the six-year period, additional modernization projects could be scheduled.

The Revenue Surcharge

The five percent surcharge on freight revenues would be collected and forwarded to the Fund by all railroads.

This would be sufficient to finance the multi-billion dollar expenditures for rehabilitation and modernization of the nation's rail network, electrification of heavy density interstate lines, and acquisition of new freight cars and locomotives.

The surcharge need not be an additional burden on shippers. Rather, half of the temporary ten percent surcharge approved by the ICC in June 1974 could be re-directed to the Fund. This would be consistent with the original intent of the ICC surcharge to provide money for capital improvements and deferred maintenance.

Such a method of collection would have no adverse effect on railroad balance sheets. Unlike the ICC-approved surcharge, it would not be diluted by increased tax liabilities on the part of carriers.

For shippers, on the other hand, the surcharge would be an ordinary business expense and would be partly offset by a reduction in income taxes.

Trust Fund Outlays

Outlays would be funded by issuing government-backed obligations. Since they would be capitalized and financed over a long term, outlays would not be strictly limited to current income of the Fund. This means that the rehabilitation-modernization programs so desperately needed by the railroads could be completed in a short period of time--perhaps six years--rather than over a decade or more.

Initially, Trust Fund expenditures would be available to meet needs in four broad areas. They might be spent as follows:

Rehabilitation of Road and Track	$6.9 billion
Electrification	3.2 billion
Modernization and Expansion of Roadway and Structures	1.9 billion
Modernization of Yards	0.9 billion
TOTAL	$12.9 billion

This estimate results from the analysis of current needs which were described in the previous section. It could be revised as a result of further analysis once the Trust Fund is operating. It is not meant to suggest earmarking of funds since each railroad would determine which types of projects it wished to undertake.

Each year the Trust Fund would authorize outlays in each area to meet needs and keep pace with the railroads' ability to use them effectively.

In any year, most of the Fund outlays (say 90 percent) could be apportioned among the railroads in proportion to their contributions to the Fund the previous year. The remaining outlays could be allocated among railroads regardless of contributions. Such a procedure would maintain the balance between the railroads' reluctance to subsidize their competitors and the public obligation to address the greatest needs.

Every railroad would receive an annual entitlement to a share of the 90 percent based only on that railroad's share of surcharge collections the previous year. This money would not be earmarked for specific categories, but could be used for any

approved rehabilitation or modernization project. Thus a railroad with little or no maintenance deficit would still be entitled to funds to pay for modernization or electrification. It would not be penalized because it had no maintenance backlog to correct.

Railroads Design Projects

Railroads themselves would design projects and apply to the Fund for money subject to the annual Trust Fund earmarking. They would thus set their own priorities for rehabilitation and modernization projects within the broad limits of the earmarked funds. If one railroad wished to emphasize yard modernization it could do so, while another might emphasize electrification.

Financing Rolling Stock

As part of the Trust Fund, a Rolling Stock Revolving Fund would be created to finance railroads' purchases of new

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THE RAIL TRUST FUND: A GIANT STEP BEYOND THE ICC TEMPORARY SURCHARGE

The Rail Trust Fund presents at least five advantages over the temporary surcharge recently imposed by the ICC:

1) It allows railroads to finance improvements to road and structures with no adverse effect on already-tight operating accounts. Under long-standing accounting regulations, railroads finance many improvements as operating expenses even though these improvements may have a useful life of 30 years or more.

Further, under the ICC order the 10 percent surcharge is not entirely available to the railroads since it appears on the railroad income statement and part of it may be required to pay additional tax obligations incurred because of the addition to revenue.

2) Because Trust Fund expenditures are financed over a long period, a modest surcharge will provide billions of dollars for improvements over a very short time. The ICC's 10% surcharge will not. Based on 1973 freight revenues a five percent surcharge paid into the Fund could finance $8.1 billion (at 7.5 percent and 30 years) while the ICC's 10 percent surcharge would yield only $1.38 billion. The massive dose of capital which the railroads need will be provided only via the Trust Fund.

and rebuilt freight cars and locomotives. Source of money for the Rolling Stock Fund would be a special fund created by the excess of the five percent surcharge not needed for amortization of Trust Fund debt in the early years.

All railroads and their jointly-owned car pooling companies would have a line of credit of up to $1 billion against the Rolling Stock Fund in the first two years. This could be increased in subsequent years as the special fund grows. Railroads could borrow for rolling stock purchases, repaying over 15 years in the case of new equipment, and over shorter periods for rebuilt equipment. Loans would be secured by liens against the equipment to be held by the Trust Fund.

Since funds would be drawn from the Trust Fund surplus, interest charges could be scaled to match the overall yields on government-backed obligations of similar life. As an average, the railroads might pay seven percent plus administrative costs. Each $1 billion line of credit would be enough to finance from 20,000 to 40,000 new cars and 750-2,000 locomotives.

3) Because of their uneven earnings and huge maintenance deficits, most railroads have had great difficulty getting private capital. The Trust Fund's Rolling Stock Revolving Loan Fund will provide a source of low cost capital for rehabilitation and purchase of rolling stock. The ICC order provides no such mechanism.

4) The original ICC order limited spending to deferred maintenance and deferred capital improvements. The Rail Trust Fund would be more flexible, allowing railroads to spend the funds for any capital improvements, whether deferred or not. And railroads would continue to set their own priorities within broad Trust Fund guidelines.

5) The Trust Fund mechanism insures that given amounts of money are spent on rehabilitation and modernization projects on a continuing basis, and it accomplishes this in a straightforward manner. By contrast, the ICC's 10 percent rate increase is temporary, and railroads receiving this boost in revenues may be under strong pressure to spend it to meet rising costs not directly related to rehabilitation. Rail users who are now paying a 10 percent premium with the understanding that this additional money will be used to improve their rail service deserve a guarantee that their payments will be used for this purpose--and the Trust Fund would provide such a guarantee.

Railroad Obligations

Railroads would maintain full ownership of all projects undertaken with money from the Fund. They would also be required to maintain any work financed through the Fund to minimum standards, thus insuring that once a stretch of track is rehabilitated, the railroad carries out regular maintenance to prevent the accumulation of another maintenance deficit. Railroads which fail to meet this requirement would temporarily lose eligibility for receiving Trust Fund money. Upon returning track or structures to these minimum standards they would regain eligibility.

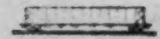
The continued existence of the Trust Fund as a source of investment capital would thus provide a major incentive for railroads to maintain track in the future.

Railroads also would be required to develop new methods for analyzing branch line profitability. Since Trust Fund

Sources and Uses of Funds,
Moderate Cost Inflation, Mo
(Millions of

Improvements to be financed
Ties
Rail
Electrification
Yards and terminals
Other road and structures
Total improvements
Sources of funds--ordinary operations
Proceeds of new 30-year borrowings
5% freight surcharge for preceding year
Preceding year's 7% return on Special Fund
Total cash inflow
Uses of funds--ordinary operations
Improvements as listed above
Principal and 7½% interest on 30-year borrowings
Additions to Special Fund
Total cash outlay
Special Fund balances
Balance at start of year
Plus: Additions to Fund
Balance during year

NOTES: For simplicity, all cash flows are on January 1. Borrowings repayable in equal annual installments of principal and interest. Revenue grows at 7. 7% per year. (This is a conservative figure. It is the implicit growth factor for Penn Central "full system" net revenue, 1972-1976 as



outlays will be available for clearing the maintenance deficit on branch lines, and for reconstructing bridges and trestles where these have forced discontinuance of service, the costs related to track rehabilitation and poor track conditions, and the expense of branch line rehabilitation no longer should be accepted as justification for abandonment. In addition, railroads would be required to agree to a moratorium on contested abandonments until system-wide rehabilitation is completed, since this may lead to significant reductions in railroad operating expenses both on and off the branch line.

Financial Viability

Will the Trust Fund work?

Table 2 summarizes the sources and uses of Funds as envisioned in the Trust Fund proposal. It illustrates the operation over the first six years and leaves no doubt that the Trust Fund will be viable.

Table 2

Initial Projects, 5% Surcharge
ierate Growth in Rail Revenues
Current Dollars)

1975	1976	1977	1978	1979	1980	1981
338	711	749	788	814	426	
270	569	599	631	652	335	
0	285	599	631	814	837	
84	177	187	196	203	105	
168	354	373	393	406	210	
860	2,096	2,507	2,639	2,889	1,913	
860	2,096	2,507	2,639	2,889	1,913	0
0	800	862	928	999	1,076	1,159
0	0	51	97	137	168	190
860	2,896	3,420	3,664	4,025	3,157	1,349
860	2,096	2,507	2,639	2,889	1,913	0
0	73	250	463	686	931	1,093
0	727	663	562	450	313	256
860	2,896	3,420	3,664	4,025	3,157	1,349
0	0	727	1,390	1,952	2,402	2,715
0	727	663	562	450	313	256
0	727	1,390	1,952	2,402	2,715	2,971

projected by Temple, Barker & Sloane, Inc., in their May, 1973 report.)
Inflation on improvements assumed to be 5.80% annual average 1974-78, and 3.30% 1979-80 (Source: NPA Inflation for non-residential fixed investment, Economic Projections Series, Report 73-N-1, Table IX-1.).

The five percent revenue surcharge will produce income more than sufficient to finance Trust Fund outlays, pay administrative costs and build up a fund for use in rolling stock purchases.

Financial viability was also analyzed under a wide range of inflation and freight revenue growth forecasts. Trust Fund viability is not dependent on particular forecasts and in fact the Fund is viable even in the "worst case" when inflation outstrips revenue growth by a wide margin.

The essentials of the financial viability analysis are summarized below for a "base case" which assumes moderate cost inflation and moderate growth in freight revenues. Further details are contained in the Technical Appendix.

Improvements to be Financed

The proposed spending by the Trust Fund is summarized in the first part of Table 2. Essentially this section is built up from the previous analysis of investment needs. Each category is expensed over the six-year period at a different rate. For instance, the maintenance deficit is assumed to be worked off at a rate of 10 percent of the total the first year and 20 percent in subsequent years. Electrification, which has a long lead time for design and acquisition of materials, is not actually undertaken until year two, and outlays increase until 25 percent of the total work is undertaken in years five and six.

This base case analysis assumes a moderate rate of inflation, 5.25 percent annual average in 1974-78 and 3.30 percent in 1979-80. This is the implicit price deflator for non-residential fixed investment used in national economic forecasts by the National Planning Association in 1973-74 (The U.S. Economy: 1973 to 1983).

While the current rate of inflation is much higher than 5.25 percent, this represents an annual average over a five year period. Moreover, detailed analysis of an alternative "worst case" presented in the Technical Appendix indicates that the Trust Fund will be viable under a wide range of inflation rates.

Sources of Funds

The next part of Table 2 summarizes the sources of funds over a seven-year period.

The first line represents the proceeds of 30-year borrowings in each of the first six years to match the projected outlays for improvements. It is assumed that these obligations will be government-backed and will bear interest at seven percent.

The next line represents the income to the Fund from the five percent surcharge on freight revenue. It is assumed that Fund operations begin January 1, 1975, and that the surcharge yields $800 million in the first year. This is credited to the Fund at the beginning of the next year, 1976.

The surcharge income grows annually, reaching $1,159 million in 1981. The 7.7 percent annual growth rate in revenues implicit in this analysis actually is quite conservative. It is derived from the May, 1973, forecast of Penn Central revenues made by their consultants for the 1972-1978 period. And since Penn Central has, in recent years, been one of the slower growing of the nation's railroads--and has been bankrupt since 1970--it is probable that the rail industry as a whole will achieve a higher growth rate. Furthermore, this growth rate does not take account of service improvements which doubtless will result once rail modernization is undertaken. These service improvements will tend to boost rail revenues.

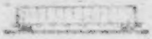
Finally, analysis indicates that the Trust Fund would be viable under a wide range of growth rates in freight revenues. A detailed discussion of these points is contained in the Technical Appendix.

The final line of this section of Table 2 shows the preceding year's interest on the surplus accumulated by the Fund. Thus, in 1977, the Fund is credited with $51 million which represents the interest earned on the cumulative surplus of $727 million. The surplus arises because in each year the Fund cash income (surcharge plus interest on previous year's surplus) exceeds the amortization payment on outstanding debt. This difference is credited to the Special Fund, while the interest on Special Fund balance is credited as cash inflow for ordinary operations.

Uses of Funds

The third section of Table 2 shows uses of funds for ordinary operations. Line one shows the annual outlay for improvements. (Note that the source for this outlay is the proceeds from 30 year borrowings.)

Line two represents the amount needed to amortize the outstanding debt over a 30 year period. This is calculated at 7.5 percent annual interest. For example, the entries for 1976 show a carrying charge of $73 million, representing the annual payment due on borrowings of $860 million. For this analysis it is assumed that the Fund obligations actually would be sold for seven percent, with the extra half percent added on to cover the costs of operations.



In 1977 the Fund would pay carrying charges of $250 million on the cumulative borrowings in 1975-76 of $2,956 million. The amortization payments grow to $1,093 million in 1981 and subsequent years.

The final line of this section represents the surplus of the five percent surcharge plus interest on the Special Fund, less annual carrying charges. This is the annual surplus and is credited to the Special Fund.

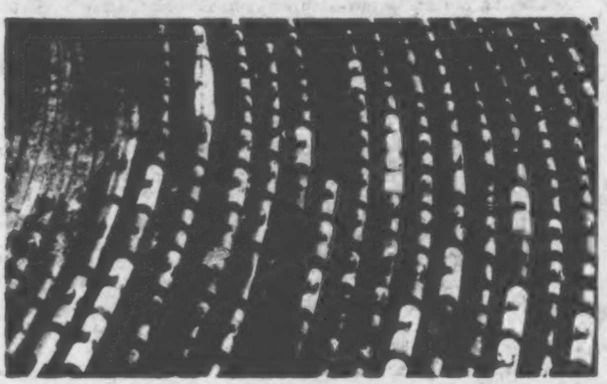
Special Fund

The Special Fund shown in the final section of Table 2 represents accumulated surplus and provides reserves and outlays for the Rolling Stock Revolving Fund.

Note that the Special Fund accumulates rapidly in the first years of Trust Fund operation, totaling $700 million at the beginning of the second year and $1.4 billion at the beginning of year three.

This Special Fund is the basis for the line of credit provided to railroads through the Rolling Stock Revolving Fund. This credit line can total $1 billion by the beginning of year three and increase in subsequent years as the Special Fund balance grows. By 1981, this fund totals almost $3 billion and is growing at the rate of more than $250 million a year.

Thus the Rail Trust Fund will work. A moderate surcharge on freight revenues will generate multi-billion dollar investments to rehabilitate our nation's railroads--in a matter of years, rather than decades--and without any direct commitment of public funds.



TECHNICAL APPENDIX

This section describes in detail the needs estimates and analysis of Trust Fund financial viability. Investment needs were estimated for the maintenance deficit, electrification, yard and terminal modernization, modernization of other roadway and structures, and rolling stock purchases. The financial analysis sought to determine whether a five percent surcharge would be sufficient to make the Trust Fund viable under a range of assumptions of inflation and growth in freight revenues.

I. INVESTMENT NEEDS

Maintenance Deficit

The maintenance deficit refers to the deficiency in railroad roadway created by decades of under-replacement of ties and rail. Since tie and rail replacement are charged to railroad operating expenses, even though once purchased they have long lives, they have been prime candidates for "economies" and "cost cutting." These items are a significant part of railroad operating expenses (direct expenses for track maintenance in 1972 totaled 7.5 percent of overall operating expenses), and because of their long life, skimping on tie or rail replacement in any one year will have little measurable impact on operations. Over the long term, however, the impact can be disastrous as track deteriorates and slow orders and derailments mount.

A detailed study of the maintenance deficit on 25 of the nation's Class I railroads recently completed by Thomas K. Dyer, Inc., for the Federal Railroad Administration formed the basis for the maintenance deficit estimates used here (see Table A-1 for a list of the 25 railroads). The Dyer study compared actual rail and tie replacements on each railroad over the 1933-1972 period with estimates of rail and tie requirements. Annual replacement requirements were calculated for each railroad by estimating tie and rail life based on physical characteristics (e.g. average system weight of rail) and use (average system gross ton miles). The results varied by railroad and over time, but overall the average tie life of 33.4 years and two position rail life of 54.2 years were not greatly different from the standards suggested by the AAR in the so-called ASTRO Report (The American Railroad Industry: A Prospectus, 1970).

Table A-2, summarizing the annual cross tie installations and the ratio of installations to requirements, is taken directly from the Dyer study. Table A-3 summarizing the main line rail

Table A-1

LIST OF RAILROADS USED IN STUDY BY THOMAS K. DYER, INC. FOR THE FEDERAL RAILROAD ADMINISTRATION

Present railroads and those included through acquisition or merger shown in italics.

EASTERN DISTRICT

- **Ann Arbor**
- **Baltimore & Ohio**
- **Boston & Maine**
- **Central Railroad of New Jersey**
  - ***Central Railroad of Penn***
- **Chesapeake & Ohio**
  - ***Pere Marquette***
- **Detroit & Toledo Shore Line**
- **Detroit Toledo & Ironton**
- **Erie Lackawanna**
  - ***Erie Railroad***
  - ***Delaware Lackawanna & Western Railroad***
- **Grand Trunk Western**
- **Lehigh Valley**
- **Maine Central**
- **Norfolk & Western**
  - ***Virginian***
  - ***Wabash***
  - ***Pittsburgh & West Virginia***
  - ***New York Chicago & St. Louis***
  - ***Wheeling & Lake Erie***
- **Penn Central**
  - ***Pennsylvania***
  - ***New York Central***
  - ***New York, New Haven & Hartford***
- **Reading**

WESTERN DISTRICT

- **Atchison Topeka & Santa Fe**
  - ***Gulf Colorado & Santa Fe***
  - ***Panhandle & Santa Fe***
  - ***Oklahoma City-Ada-Atoka***
- **Burlington Northern**
  - ***Chicago Burlington & Quincy***
  - ***Great Northern***
  - ***Northern Pacific***
  - ***Spokane, Portland & Seattle***

WESTERN DISTRICT (Cont'd.)

- **Chicago Milwaukee St. Paul & Pacific**
- **Chicago Rock Island & Pacific**
  - ***Chicago Rock Island & Gulf***
- **Missouri-Kansas-Texas**
  - ***MKT of Texas***
- **Southern Pacific**
  - ***Texas & New Orleans***
  - ***Pacific Electric***
- **Union Pacific**
  - ***Los Angeles & Salt Lake***
  - ***Oregon Short Line***
  - ***Oregon-Washington RR & Navigation Co.***
  - ***St. Joseph & Grand Island***

SOUTHERN DISTRICT

- **Central of Georgia**
- **Louisville & Nashville**
  - ***Nashville Chattanooga & St. Louis***
  - ***Monon (Chicago Indianapolis & Louisville)***
- **Seaboard Coast Line**
  - ***Seaboard Air Line***
  - ***Atlantic Coast Line***
  - ***Atlanta Birmingham & Coast***
  - ***Charleston & Western Carolina***
- **Southern**
  - ***Alabama Great Southern***
  - ***New Orleans & Northeastern***
  - ***Cincinnati New Orleans & Texas Pacific***
  - ***Georgia Southern & Florida***

TABLE A-6

CROSS TIES INSTALLED AS PERCENT OF ESTIMATED NUMBER REQUIRED (36 RAILROADS) BY DISTRICT

Year	TOTAL # of Ties Installed	TOTAL % Installed to Estimated Ties Req'd.	EASTERN DISTRICT # of Ties Installed	EASTERN DISTRICT % Installed to Estimated Ties Req'd.	WESTERN DISTRICT # of Ties Installed	WESTERN DISTRICT % Installed to Estimated Ties Req'd.	SOUTHERN DISTRICT # of Ties Installed	SOUTHERN DISTRICT % Installed to Estimated Ties Req'd.
1938	20,703,600	112.14	7,076,216	86.80	13,309,273	126.27	5,516,190	137.64
1939	29,000,605	126.75	9,602,750	107.22	16,790,675	142.04	5,414,781	145.77
1940	29,192,033	125.06	9,404,121	108.17	14,959,259	130.67	5,326,652	137.05
1941	32,313,542	141.77	11,300,503	128.30	15,692,506	152.43	5,236,884	144.06
1942	33,001,730	150.30	11,271,880	127.91	16,934,795	163.60	5,595,923	170.31
1943	33,364,560	145.11	11,196,276	127.63	15,366,364	149.39	5,902,720	179.03
1944	36,310,620	155.30	12,013,765	130.36	16,671,963	163.02	5,630,800	176.49
1945	31,670,934	143.90	10,463,052	121.06	15,095,287	148.45	6,110,895	188.15
1946	25,043,514	127.32	9,442,030	109.16	10,256,748	108.93	6,134,716	181.94
1947	25,049,121	116.13	8,639,305	95.54	16,600,030	105.90	5,811,212	181.17
1948	24,687,207	112.61	9,637,419	111.16	9,725,969	95.41	5,323,739	164.65
1949	20,098,300	83.37	7,242,204	84.32	8,429,[illegible]	82.06	4,334,061	137.05
1950	20,084,136	88.30	8,304,142	96.36	7,816,174	73.09	4,093,818	133.76
1951	19,974,383	86.39	7,087,790	87.98	7,132,664	69.64	4,253,870	136.07
1952	20,795,000	77.77	7,979,790	92.8	8,086,836	79.17	4,220,670	136.36
1953	20,272,400	72.68	8,054,603	93.0	8,290,775	80.63	3,023,133	126.33
1954	15,609,[illegible]	71.06	5,123,009	59.91	7,238,483	70.11	3,278,370	104.11
1955	15,822,916	77.43	6,130,105	72.07	7,087,340	74.41	3,005,563	97.80
1956	13,245,176	66.66	5,566,630	66.61	6,634,090	68.71	3,064,600	98.19
1957	10,645,300	66.59	5,572,000	67.01	6,701,400	66.03	2,891,780	79.06
1958	10,800,756	66.99	3,117,373	37.34	4,008,646	41.05	2,354,979	75.64
1959	14,759,960	69.86	3,300,610	40.09	5,237,033	51.06	2,314,317	71.10
1960	9,772,170	46.98	2,847,076	34.24	6,743,652	46.16	2,131,642	68.68
1961	8,430,542	38.69	2,507,211	30.31	4,104,929	38.05	1,762,000	54.15
1962	9,395,019	43.32	3,026,640	34.91	4,454,307	44.38	1,922,843	62.23
1963	9,620,217	46.00	2,918,302	34.61	4,675,273	46.49	2,036,952	65.09
1964	10,364,497	46.46	2,[illegible],307	35.37	5,155,213	50.30	2,316,736	74.03
1965	10,781,423	51.90	3,690,130	44.79	6,709,583	67.47	2,551,308	82.31
1966	10,981,107	53.50	3,674,022	45.30	5,093,144	52.00	2,414,137	77.75
1967	10,721,906	52.07	3,813,900	44.07	4,517,207	45.97	2,791,102	90.34
1968	12,495,600	61.15	3,571,609	44.99	5,711,235	58.41	3,312,081	103.73
1969	12,934,671	62.90	3,020,082	49.51	5,695,047	58.99	3,410,092	108.04
1970	12,981,606	65.78	3,925,170	50.03	5,271,041	54.38	3,784,575	119.68
1971	15,572,544	78.70	4,610,500	62.35	6,410,500	59.02	4,004,537	145.99
1972	14,788,798	76.53	4,261,006	59.50	6,367,305	66.54	4,179,487	132.65

Source: "[illegible]"
[illegible]

TABLE A-2

EASTERN DISTRICT MAIN TRACK RAIL INSTALLED AS PERCENT OF NORMAL REQUIREMENT

Year	Average Weight of Rail*	Miles of Main Track*	Tons/Year Normal Replacement**	Tons Installed	Rail Installed as Percent of Normal Requirement
1938	106.4	69,961	241,719	176,381	72.9
1939	107.4	69,703	243,091	296,705	122.0
1940	107.5	69,404	242,553	412,110	169.9
1941	108.7	69,077	243,026	400,774	100.7
1942	108.9	68,562	242,481	461,965	190.5
1943	109.5	68,249	242,676	476,589	196.3
1944	110.6	68,252	245,173	540,562	220.0
1945	111.1	68,213	246,090	552,006	224.3
1946	111.2	68,179	246,189	437,736	177.0
1947	112.1	68,007	247,067	466,427	188.1
1948	112.0	68,002	247,316	481,087	194.5
1949	113.1	67,613	248,317	390,501	157.2
1950	113.5	67,720	249,509	370,886	148.5
1951	113.9	67,366	249,899	393,020	157.2
1952	114.2	67,305	249,367	331,620	132.9
1953	114.6	66,992	249,299	355,667	142.6
1954	115.0	66,726	249,169	218,540	87.7
1955	115.4	65,906	246,970	224,853	91.0
1956	115.6	66,210	244,705	167,027	68.2
1957	115.9	64,371	242,263	194,120	80.1
1958	116.0	63,866	240,570	68,917	28.6
1959	116.0	63,467	239,067	83,935	35.1
1960	116.1	62,440	235,431	69,420	29.6
1961	116.3	61,501	232,600	57,002	24.0
1962	116.4	60,691	229,399	74,409	32.4
1963	116.4	59,903	226,722	73,000	32.5
1964	116.6	59,222	224,231	84,197	37.5
1965	116.9	58,804	223,221	88,106	39.4
1966	117.1	58,365	221,933	92,795	41.8
1967	117.3	57,931	220,671	87,029	39.8
1968	117.4	57,561	219,437	81,533	37.1
1969	117.6	57,155	218,260	127,432	53.0
1970	117.7	56,792	217,059	111,767	51.4
1971	117.9	56,436	216,044	167,283	77.4
1972	118.1	56,285	215,345	131,903	60.9

* Source: "Estimate of Deferred Maintenance on Track Materials for Twenty-Five Railroads" (Study prepared by Thomas K. Dyer, Inc. for FRA); [illegible] Eastern District railroads of [illegible] railroad sample.

** Calculated by the following formula:
average weight of rail in lbs./yd. x 2 rails x 1760 yds./mi. ÷ 2000 lbs./ton x miles of main track = total weight of rails ÷ average life of rail of [illegible] years = tons to be replaced each year.

TABLE A-4

WESTERN DISTRICT MAIN TRACK RAIL INSTALLED AS PERCENT OF NORMAL REQUIREMENT

Year	Average Weight of Rail*	Miles of Main Track*	Tons/Year Normal Replacement**	Tons Installed	Rail Installed as Percent of Normal Requirement
1938	87.1	96,787	205,277	394,418	[illegible]
1939	87.8	96,769	207,327	373,940	[illegible]
1940	88.5	96,603	[illegible]	361,696	[illegible]
1941	89.2	97,039	[illegible]	458,795	[illegible]
1942	90.1	96,975	251,543	481,637	[illegible]
1943	90.7	[illegible]	234,976	[illegible]	[illegible]
1944	91.0	95,727	255,149	[illegible]	[illegible]
1945	92.4	[illegible]	[illegible]	571,933	[illegible]
1946	93.1	[illegible]	[illegible]	470,130	[illegible]
1947	93.8	[illegible]	[illegible]	552,437	[illegible]
1948	94.7	[illegible]	263,477	[illegible]	[illegible]
1949	95.6	[illegible]	264,612	532,343	[illegible]
1950	96.4	[illegible]	[illegible]	[illegible]	[illegible]
1951	97.0	[illegible]	[illegible]	[illegible]	[illegible]
1952	97.3	85,507	[illegible]	339,373	[illegible]
1953	98.0	85,409	[illegible]	[illegible]	[illegible]
1954	98.3	[illegible]	[illegible]	[illegible]	[illegible]
1955	98.4	[illegible]	[illegible]	344,311	[illegible]
1956	99.3	84,725	[illegible]	307,180	[illegible]
1957	99.7	[illegible]	[illegible]	271,125	[illegible]
1958	99.9	[illegible]	273,198	164,447	[illegible]
1959	100.2	83,727	[illegible]	[illegible]	[illegible]
1960	100.6	83,477	[illegible]	[illegible]	[illegible]
1961	100.8	83,379	[illegible]	[illegible]	[illegible]
1962	101.1	83,198	[illegible]	133,179	[illegible]
1963	101.3	83,039	[illegible]	170,314	[illegible]
1964	101.6	82,313	[illegible]	[illegible]	[illegible]
1965	101.6	[illegible]	[illegible]	[illegible]	[illegible]
1966	101.9	81,780	[illegible]	[illegible]	[illegible]
1967	102.1	[illegible]	[illegible]	[illegible]	[illegible]
1968	102.6	81,627	[illegible]	[illegible]	[illegible]
1969	102.8	[illegible]	[illegible]	[illegible]	[illegible]
1970	103.1	[illegible]	[illegible]	[illegible]	[illegible]
1971	103.2	[illegible]	[illegible]	[illegible]	[illegible]
1972	104.1	[illegible]	[illegible]	[illegible]	[illegible]

* Source: [illegible] study prepared by Thomas K. Dyer, Inc. for FRA; [illegible]

** Calculated by the following formula: [illegible]

TABLE A-[illegible]

SOUTHERN DISTRICT MAIN TRACK RAIL INSTALLED AS PERCENT OF NORMAL REQUIREMENTS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1938	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1939	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1940	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1941	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1942	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1943	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1944	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1945	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1946	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1947	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1948	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1949	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1950	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1951	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1952	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1953	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1954	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1955	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1956	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1957	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1958	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1959	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1960	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1961	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1962	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1963	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1964	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1965	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1966	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1967	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1968	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1969	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1970	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1971	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1972	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

TABLE A-9

TOTAL SYSTEM MAIN TRACK RAIL INSTALLED AS PERCENT OF NORMAL REQUIREMENT (35 RAILROADS)

Year	Average Weight of Rail*	Miles of Main Track*	Tons/Year Normal Replacement**	Tons Installed	Rail Installed as Percent of Normal Requirement
1938	94.0	185,039	569,681	516,576	90.4
1939	95.3	184,795	571,869	752,120	131.3
1940	96.0	184,380	574,700	878,304	152.9
1941	96.6	184,154	577,059	1,009,924	176.8
1942	97.5	182,422	577,557	989,368	171.3
1943	98.1	182,343	580,530	1,085,265	186.9
1944	98.8	181,097	582,932	1,330,086	228.1
1945	99.6	181,329	586,449	1,391,035	237.1
1946	100.3	181,770	592,048	1,041,908	175.8
1947	100.9	181,538	594,163	1,207,002	203.2
1948	101.6	181,207	596,232	1,232,039	206.6
1949	102.0	180,630	601,820	1,090,036	181.2
1950	102.2	180,054	605,390	1,001,793	165.4
1951	102.7	180,606	606,430	956,132	157.1
1952	104.0	179,936	607,006	808,844	133.1
1953	104.6	179,544	609,860	954,944	156.5
1954	104.9	179,224	610,499	709,026	116.1
1955	105.3	178,330	609,191	716,270	117.5
1956	105.8	176,936	607,876	596,370	98.4
1957	106.2	175,887	606,281	585,982	96.6
1958	106.4	175,058	604,836	551,068	91.1
1959	106.6	174,020	602,407	350,636	58.2
1960	106.9	172,882	599,152	242,499	40.4
1961	107.0	171,083	595,510	233,404	39.1
1962	107.2	170,122	592,200	235,208	39.7
1963	107.2	169,246	589,151	296,737	50.3
1964	107.4	167,508	584,480	270,008	46.0
1965	107.6	167,284	586,175	318,067	54.5
1966	107.9	166,084	581,629	416,126	71.2
1967	108.2	164,729	579,776	382,630	66.0
1968	108.6	164,081	577,340	358,365	62.1
1969	108.7	163,077	578,843	431,079	74.5
1970	109.1	162,679	577,920	466,346	80.6
1971	109.4	162,340	576,737	511,036	88.6
1972	109.9	161,970	576,833	560,072	97.1

* Source: [illegible]
(Study prepared by Thomas K. Dyer, Inc. for FRA.)

** Determined by the following formula:
[illegible]

installations and requirements was calculated from data provided in the Dyer study.

Actual rail and tie replacements over the period were "aged" by Dyer by calculating life remaining, and the results (tie years and rail ton years) were compared with that required by a normalized maintenance standard. The latter assumes that 50 percent of the original life of all track materials in the system remains at any one point in time. These calculations resulted in estimates of 100.8 million ties and 3.7 million tons of new rail needed for the 25 railroads to correct the maintenance deficit of the 1953-1973 period.

These figures were expanded to all Class I railroads by using the ratio of track miles in the railroads studied in each district to total track miles in 1972. The all-district figures were expanded using the same method and the totals for each district were then forced to equal this total. This yielded a deficit of 141.9 million ties and 5.3 million tons of rail.

Next, 1974 unit costs of replacing cross ties and rail used in the Dyer study were compared with independent estimates based on AAR cost accounting guides and recent spot materials prices. The Dyer study cross tie replacement cost of $19.47 (including all labor and materials) was slightly higher than the independent estimate ($18.78). The Dyer study also included an add-on for replacing bridge and switch ties which average 12.8 percent of the unit cost of cross tie replacement. This reflected an average of about one switch and bridge tie for every 14 cross ties and the higher installation cost of switch and bridge ties. The rail replacement cost of $450 to $525 per ton was higher than the independent estimate of $430. Thus, the Dyer study estimates of the cost of erasing the maintenance deficit seem ample.

The results of the Dyer study for the 25 railroads are summarized as follows:

District	Miles of Track	Deferred Maintenance Millions of Dollars		
		Ties	Rail	Total
East	87,200	$1,000	$1,100	$2,100
West	111,100	1,300	600	1,900
South	38,000	--	100	100
Total	236,300	$2,300	$1,800	$4,100

If the Dyer study results are expanded to all Class I railroads, the total current cost of correcting the maintenance deficit comes to $3,214 million for ties and $2,569 million for rail. The Rail Trust Fund proposal envisions spending this money over a six year period, with 10 percent of the deficit erased in the first year, 20 percent in years two through five, and 10 percent in year six. In the analysis of sources and uses of funds the maintenance deficit outlays were distributed over six years, including an inflation factor for each year.

Table A-4

Unit (Per Mile) Costs of Electrification

1. Costs (1968-69 Dollars) Per Track Mile	$
A. Catenary	53,750
B. Substations	10,000
C. Electrical Distribution	1,250
D. Signalling (Standard CTC to Electric)	11,500
E. Communications	6,700
F. Other Costs (Bridges, Tunnels, Etc.)	1,202
G. Total Cost Per Track Mile	84,402
2. Cost Adjustment to 1974 Dollars	x 1.215
3. Total Costs Per Track Mile, 1974 Dollars	102,548

Note on Method:

All cost data from Edison Electric Institute, **Railroad Electrification** (N.Y.: 1968) cited in Federal Railroad Administration, **Cost-Effectiveness Review of Railroad Electrification**, April 1973. Cost adjustment factor for 1969-73 from National Planning Association, Economic Projection Series 73-N-1, Table IX-1, implicit price deflator for producers durable equipment. For 1973-74, an additional eight percent inflation is assumed.

Electrification

The cost of electrifying the heavy density rail network was based on data presented in the recent FRA-sponsored study, **Cost-Effectiveness Review of Railroad Electrification**, and Edison Electric Institute, **Railroad Electrification**.

Based on these sources, a unit cost of electrifying roadway was developed. (See Table A-4). This includes all costs of constructing catenary, substations and the distribution system, modifying signalling and communications for compatibility with electric operation, and modifying bridges and tunnels as needed. It does not include the costs of acquiring electric locomotives since these estimates cannot be made without a detailed examination of operating conditions.

The unit costs represent an average of costs for the East, Midwest, South and West, as presented in the cost-effectiveness study. They were increased by 21.5 percent to reflect inflation in the 1969-74 period. This adjustment factor represented the actual change in the price index of fixed investment in producers durable equipment, 1969-73, and an estimated increase of eight percent in 1974.

The high density network with the greatest potential for electrification was assumed to be the 14,300 route-mile system analyzed in the recent FRA-sponsored report. That report found benefits in electrifying some 6,200 miles of the system, but based on present high petroleum costs and expected growth in rail traffic in coming years, the entire network was assumed to have some potential for electrification. In the first years, the Trust Fund could limit its outlays to those segments which are part of the 6,200 miles, expanding electrification as feasibility studies dictate.

Total cost for the electrification projects was derived simply by multiplying the per mile cost ($102,548) by the route mileage (14,300) by 1.75 (the assumed ratio of track to route mileage in the network). The result, $2,566 million in current dollars, would be spent in years two through six, with 10 percent spent the second year, 20 percent in years three and four, and 25 percent in years five and six. Because of the need for design time, no outlays would be made the first year. The expected outlays presented in the sources and uses analysis have been adjusted to reflect inflation.

Modernization of Yards, Terminals, and Other Roadway and Structures

Many of the greatest inefficiencies and much of the unnecessary cost in the railroad industry can be traced to yards and terminals. In many of the large metropolitan areas, old, scattered terminals lead to disproportionate costs of originating and terminating freight. High per diem rental payments for cars and under-utilization of the nation's freight car fleet can also be traced to yard and terminal inefficiencies.

Additions and improvements to roadway are another area where railroads have underinvested. Some routes, often laid out a hundred years ago, contain steep grades and curves which slow the movement of traffic and often require added motive power (with consequent added costs). Modern construction techniques can eliminate many of these bottlenecks, but this requires capital for investment--an item in extremely short supply in the rail industry of late.

While there is general agreement within the industry that yard and terminal modernization and improvement of roadway and structures are much needed, there is little hard data to indicate the costs of such a program. Estimates used in the Trust Fund proposal were based on an examination of the relationship between capital expenditures for roadway and structures and railroad output (measured as gross ton miles) over the 1950-1973 period.

Annual gross capital expenditures data from the AAR were converted to 1958 dollars using the deflator series for non-residential fixed investment developed by the U.S. Department of Commerce. This series was chosen in preference to more specific deflators (e.g. those for public utilities construction or producers durables) because of the very diverse nature of expenditures for roadway and structures. Gross ton miles were used to represent railroad output--or work done.

Table A-5 summarizes rail capital expenditures in roadway and structures in the period 1950-1973. While the outlays in current dollars show an uneven pattern, they seem to indicate an expansion of investments in the late 1960's and early 1970's.

However, the constant dollar equivalents show a very different picture. Expenditures in the 1960-73 period averaged $284 million annually, compared with $437 million in the 1950-54 period--a decrease of one-third.

In the absence of detailed cost studies, the Rail Trust Fund proposal assumed that railroad expenditures for roadway and structures improvements in constant dollars should be the same per unit of output as they were in the more prosperous 1950-54 period. It should be noted that this was a period characterized by a high level of rail and tie replacements and lower operating ratios than in recent years.

The actual calculation was made by multiplying the 1950-54 average expenditure per billion gross ton miles ($0.2832) by the 1973 gross ton miles (2,054 billion) and multiplying by the deflator (1.449). This yields a figure of $843 million which was assumed to represent the average level of new investment needed in roadway and structures. Since railroads actually

Table A-5

Gross Capital Expenditures for Roadway and Structures
Class I Line Haul Railroads
- Millions of Dollars -

Year	Current $	Deflator	*Constant $	Millions of Gross Ton Miles	*Constant $ / GTM
1950	286	74.4	384	1524	.2520
1951	363	80.4	451	1618	.2787
1952	406	82.6	492	1575	.3124
1953	402	84.0	478	1558	.3068
1954	322	84.8	380	1429	.2659
1955	341	86.7	392	1578	.2484
1956	406	92.4	439	1613	.2722
1957	387	97.9	395	1555	.2540
1958	258	100.0	258	1412	.1827
1959	250	100.7	239	1467	.1629
1960	286	102.9	278	1460	.1904
1961	219	103.4	212	1431	.1481
1962	240	104.1	230	1487	.1547
1963	259	104.5	248	1535	.1616
1964	277	105.7	262	1603	.1634
1965	327	107.5	298	1666	.1789
1966	399	110.1	362	1754	.2064
1967	374	113.6	329	1726	.1906
1968	368	117.5	313	1783	.1755
1969	423	123.0	343	1837	.1873
1970	358	130.2	275	1842	.1493
1971	314	136.1	230	1805	.1274
1972	368	139.6	264	1933	.1366
1973	449	144.9	309	2054	.1504

* 1958 Dollars

Source: Current dollar expenditures and gross ton miles from Association of American Railroads, Economics and Finance Department, Washington, D.C.; deflator for non-residential fixed investment from U.S. Department of Commerce.

invested $449 million from their own sources in 1973, the difference, or $394 million, represents the amount the Trust Fund should provide. If this is expanded to cover six years, the total (in 1974 dollars) is $2,364 million.

Since capital expenditures often change quite a bit from year to year, a similar calculation was made for the 1971-73 period, and it yielded a six-year total of $2,430 million which was quite close to the first. For the sake of simplicity, this was rounded to $2,400 million (in constant dollars) over the six-year period.

In the sources and uses of funds analysis, one-third of this is assumed to go for yards and terminals, and the rest for other roadway and structures.

As with other classes of expenditures, modernization funds would be spent over a six-year period. The financial analysis assumes that 10 percent would be spent in year one, 20 percent in years two through five, and 10 percent in year six, with adjustments made for the effects of inflation.

It should be noted that outlays in these two areas will supplement basic outlays for rehabilitation of track in existing yards and terminals and for electrification of heavy density routes. Thus, in many cases, investments in yards and main lines would qualify for funding from more than one Trust Fund category.

It should be noted that the results of this analysis were not very different from those in the ASTRO Report which recommended a doubling of current capital expenditures for roadway and structures over the 1970-1980 period.

Rolling Stock Purchases

In 1973, more than 59,000 new and rebuilt freight cars and almost 1,400 locomotives were installed by the nation's railroads. Continued acquisition at or above this level can be expected in the future, although a number of factors make accurate forecasts of needs difficult.

The difficulty of forecasting car and locomotive needs is illustrated by comparing present fleets with the needs forecast in the ASTRO Report published by the AAR in 1970. The nation's freight car fleet, which totaled 1.7 million units at the end of 1973, falls between the 1977 and 1978 ASTRO needs estimates while the locomotive inventory of nearly 27,500 matches the ASTRO forecast for 1975-76. Yet, shippers today are complaining vigorously about the severe shortage of rolling stock, and the AAR recently estimated 100,000 units were needed.

Growth in business, more efficient car and engine utilization due to track and operating improvements, and changes in the nature of business--all of which may be induced by the Trust Fund--influence the need for increased rolling stock.

Tables A-6 and A-7 summarize data on the car shortage as reported by the AAR and ICC. The average daily shortage in the 12 months ending April 1, 1974, was almost 35,000 cars. At current car prices each $1 billion in Rolling Stock Revolving Fund credit would finance 20-40,000 cars (and 750-2,000 locomotives). While this is in the same range as the reported car shortage, it is substantially less than the annual retirement of 80,000 units assumed in the ASTRO Report.

Table A-6

THE TREND IN FREIGHT CAR SHORTAGES

YEAR	NUMBER OF CARS*
1963	525
1964	1,480
1965	910
1966	4,006
1967	1,860
1968	1,064
1969	3,110
1970	7,965
1971	2,298
1972	430
1973	20,276
1974	28,994

* Average daily freight car shortage for the first complete week of January of each year.

Source: Interstate Commerce Commission and Association of American Railroads.

Table A-7

SEASONAL FREIGHT CAR SHORTAGES

BY MONTH AND YEAR	Total Number of Cars*		
	1972	1973	1974
JANUARY	430	20,276	28,994
FEBRUARY	2,132	34,855	41,616
MARCH	2,419	42,534	42,251
APRIL	2,750	37,543	32,079
MAY	2,774	33,280	21,675
JUNE	1,560	30,188	14,855
JULY	2,301	29,825	10,584
AUGUST	2,780	32,095	13,167
SEPTEMBER	5,960	35,232	
OCTOBER	7,168	33,930	
NOVEMBER	11,282	38,883	
DECEMBER	10,999	33,401	

* Average daily freight car shortages for the first week of each month.

Source: Interstate Commerce Commission and Association of American Railroads.

In a word, then, a $1-to $2-billion line of credit will make a significant--but only a partial--contribution to car shortages. Improved utilization and continued financing through conventional sources will be required to eliminate the chronic problem.

II. TRUST FUND INCOME AND FINANCIAL VIABILITY

This section describes the financial viability analysis of the Trust Fund proposal. First a base case was defined with moderate inflation and moderate growth in freight revenues. Next, a "worse case" was analyzed. This case assumed high inflation and low growth in revenues--a combination which, in the extreme, could deny the self-liquidating feature of the Trust Fund.

The following assumptions underlie both cases: (1) initial estimate of Trust Fund outlays of $10,740 million in 1974 dollars; (2) annual surcharge of five percent of gross freight revenues; (3) annual carrying charge of 7.5 percent (7 percent 30 year obligations, and ½ percent to cover administrative costs; and (4) surplus and special fund earn interest of 7 percent.

In addition, the base case assumed the following:

1) Moderate cost inflation at 5.25 percent annual average in the 1974-78 period and 3.30 percent in 1979-80. This corresponds to the implicit deflator for non-residential fixed investment in the National Planning Association's Economic Projections for 1973-74 (Report 73-N-1 Table IX-1).
2) Growth in freight revenues averaging 7.7 percent annually over the period. Freight revenue projections were made using a rather simple method and have no claim to high accuracy; they are, however, consistent with other freight revenue projections for the period.

The worst case assumed:

1) A cost inflation rate 50 percent above that in the base case, or 7.88 percent annual average in the 1974-78 period and 4.95 percent in 1979-80.
2) A freight revenue growth factor 50 percent lower than that used in the base case, averaging 3.85 percent after 1975.

Taken together, the worst case assumptions mean that the inflation rate is about 80 percent higher than the growth in revenues--an extreme but highly unlikely situation which would occur only if there were a high rate of inflation and an almost complete inability of railroads to make up in revenue for any increased cost.

Table A-8 presents the results of the worst case analysis.

The high inflation assumption means that the cost of meeting railroad needs in future years grows considerably compared with the base case. Thus, total outlays of the Trust Fund in the first six years would be $13,768 million compared to $12,904 million in the base case.

Low revenue growth means that the Trust Fund income from the surcharge comes to only $991.4 million in year seven compared with $1,275.4 million in the base case.

Even under these circumstances, however, the Trust Fund is self-liquidating. Although the amortization on borrowings exceed the surcharge yield plus interest from the Special Fund in 1981 and 1982 by $44 and $9 million respectively, these amounts can be drawn from the Special Fund to meet payments. By 1983 the Trust Fund's ordinary income would again be sufficient to meet payments and leave a surplus of $29 million to be added to the Special Fund.

In sum, even in the unlikely case that inflation far exceeds growth in rail freight revenues, the Trust Fund remains solvent.

Inflation Rates

Trust Fund calculations used the price deflator for non-residential fixed investment. The historical series was that developed by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA Series 8.1 as revised). Deflators for the 1974-80 period were those used in National Planning Association's forecasts of the U.S. economy in the 1973-83 period (Report 73-N-1, February 1974).

As noted earlier, the deflator for non-residential fixed investment was selected as being most reflective of price changes in a highly diverse mix of labor, capital and materials which the Trust Fund would finance.

Freight Revenue Projections

The Trust Fund base case assumes an annual average growth in freight revenues of 7.7 percent in the 1974-81 period. This is a conservative estimate that does not attribute any revenue growth to service improvements which undoubtedly will result from the Trust Fund investments.

Freight revenue growth factors imply assumptions about a great many variables including tonnages by commodity, length of haul, interline revenue divisions, and rate revisions, to reflect inflation, intermodal competition and other factors. The 7.7-percent rate seems to be conservative both with regard to other recognized traffic growth projections for the period and assumptions about other revenue and rate factors.

The 7.7-percent growth rate was taken from the May 1973 report of Temple, Barker & Sloane, Inc., consultants to the Penn Central railroad. It represents the implicit factor in their projections of Penn Central net revenue for the 1972-1978 period, assuming a "full system" (i.e. the present Penn Central system). A more recent report by this same firm, completed in March 1974, forecasts a growth in freight revenues for the full system of 9.2 percent a year in the 1974-1978 period. (See Affidavit of Carl S. Sloane before the Penn Central Reorganization Court, Debtor No. 70-347, March 25, 1974 hearing). Given the fact that Penn Central is currently bankrupt and also serves the slower-growing Eastern District markets, the Trust Fund revenue forecast is modest.

The Trust Fund projections were compared with those contained in the 1972 **National Transportation Report** of the U.S. Department of Transportation which forecast 1980 freight revenues of $14,510 million 1969 dollars (see pp. 109-11). If the annual growth factor of 2.8 percent implied in this forecast is applied to actual 1973 revenues, the result is a forecast of $16,822 million by 1980 (in 1973 dollars). This must be adjusted for expected price rises before it can be compared to the Trust Fund revenue growth factor. One factor to use in such an adjustment is the implicit deflator for gross national product. Latest projections by the National Planning Association (Report 73-N-1, Table IX-1) contain an implicit GNP deflator which grows at about 4.25 percent in the 1973-83 period. Applying this to the above forecast yields an expected freight revenue of $22,511 million in 1980, slightly higher than the $21,520 million assumed in the Trust Fund analysis.

The Trust Fund projections were also compared to those in the ASTRO Report of the AAR. That report assumed a growth in revenue ton miles averaging 3.5 percent in the 1970-80 period. Applying this growth rate to actual 1973 freight revenues yields an estimate of 1980 revenues of $17,550 million (in 1973 dollars). Inflating this by the same 4.25-percent GNP deflator yields an estimate of $23,485 million for 1980 in current dollars. This is significantly higher than the estimate assumed in the Rail Trust Fund for that year.

The revenue growth in the "worst case" is of course considerably lower, and implies little or no growth in ton miles and/or little ability of railroads to capture price increases in the form of rate revisions. Clearly, this is an unlikely set of factors for the railroads under all but the worst economic conditions.

Table A-8
Sources and Uses of Funds, Initial Projects, 5% Surcharge
High Cost Inflation, Low Growth in Rail Revenues
(Millions of Current Dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Improvements to be financed									
Ties	338	729	786	848	890	471			
Rail	270	586	630	679	713	373			
Electrification	0	292	630	679	890	930			
Yards and terminals	84	182	196	211	222	118			
Other road and structures	168	361	392	423	444	233			
Total improvements	860	2,150	2,634	2,840	3,159	2,125			
Sources of funds—ordinary operations									
Proceeds of new 30-year borrowings	860	2,150	2,634	2,840	3,159	2,125	0	0	0
5% freight surcharge for preceding year	0	800	831	863	896	930	966	1,004	1,042
Preceding year's 7% return on Special Fund	0	0	51	95	128	150	156	153	153
Drawings from Special Fund	0	0	0	0	0	0	44	9	0
Total cash inflow	860	2,950	3,516	3,798	4,183	3,205	1,166	1,166	1,195
Uses of funds—ordinary operations									
Improvements as listed above	860	2,150	2,634	2,840	3,159	2,125	0	0	0
Principal and 7½% interest on 30-year borrowings	0	73	255	478	718	986	1,166	1,166	1,166
Additions to Special Fund	0	727	627	480	306	94	0	0	29
Total cash outlay	860	2,950	3,516	3,798	4,183	3,205	1,166	1,166	1,195
Special Fund balances									
Balance at start of year	0	0	727	1,354	1,834	2,140	2,234	2,190	2,181
Less: Drawings from Fund	0	0	0	0	0	0	44	9	0
Plus: Additions to Fund	0	727	627	480	306	94	0	0	29
Balance during year	0	727	1,354	1,834	2,140	2,234	2,190	2,181	2,210

NOTES: For simplicity, all cash flows are on January 1. Borrowings repayable in equal annual installments of principal and interest. Inflation on improvements assumed to be 50% greater than in base case: 7.80% annual average 1975-1979 and 4.80% 1979-83. Revenue growth rate assumed to be 50% lower than in base case: 1974-1983 annual average is 2.80%.

Mr. **Daniels.** You made reference in the course of your testimony about the studies you have made. Do you have them with you also?

Governor **Shapp.** In my testimony I made reference to the refinanced education so as to eliminate property tax burden for education. I have a plan here on setting up a national education trust fund that would take over the local share of taxes and eliminate the need entirely for local taxes.

My feeling is, until we find a way to get away from property taxes our cities are going to continue to decline and we will have a lot of economic problems.

Mr. **Daniels.** I will ask unanimous consent that the plan pertaining to education also be made a part of the record. Is there any objection to filing those two plans for the record?

[The document referred to follows:]

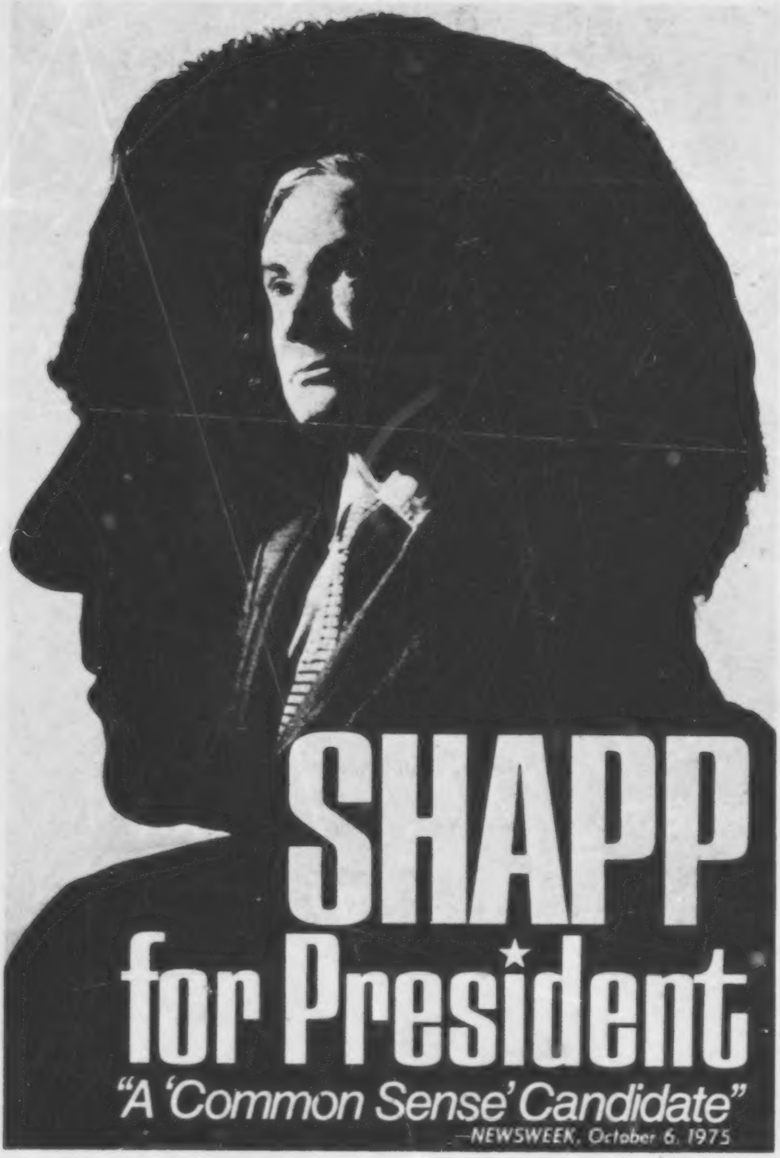
The National Education Trust Fund

A Practical Plan to Cut the Student Share of College Tuition in Half and to Finance an Expanded Public School System Without the Need for Property Taxes!

By Milton J. Shapp

Governor of Pennsylvania

Price $1.00


SHAPP
for President
"A 'Common Sense' Candidate"
—NEWSWEEK, October 6, 1975

The National Education Trust Fund

NETF is a practical plan to finance, expand and make education and training programs available to more people.

This pamphlet outlines a practical system for financing schooling from kindergarten through college and graduate school. But the concept can be applied to day care, vocational training schools, special schools for the retarded and handicapped, for working adults, and even for senior citizens.

Think of school libraries full of books, and an expansion of drama, music and art courses.

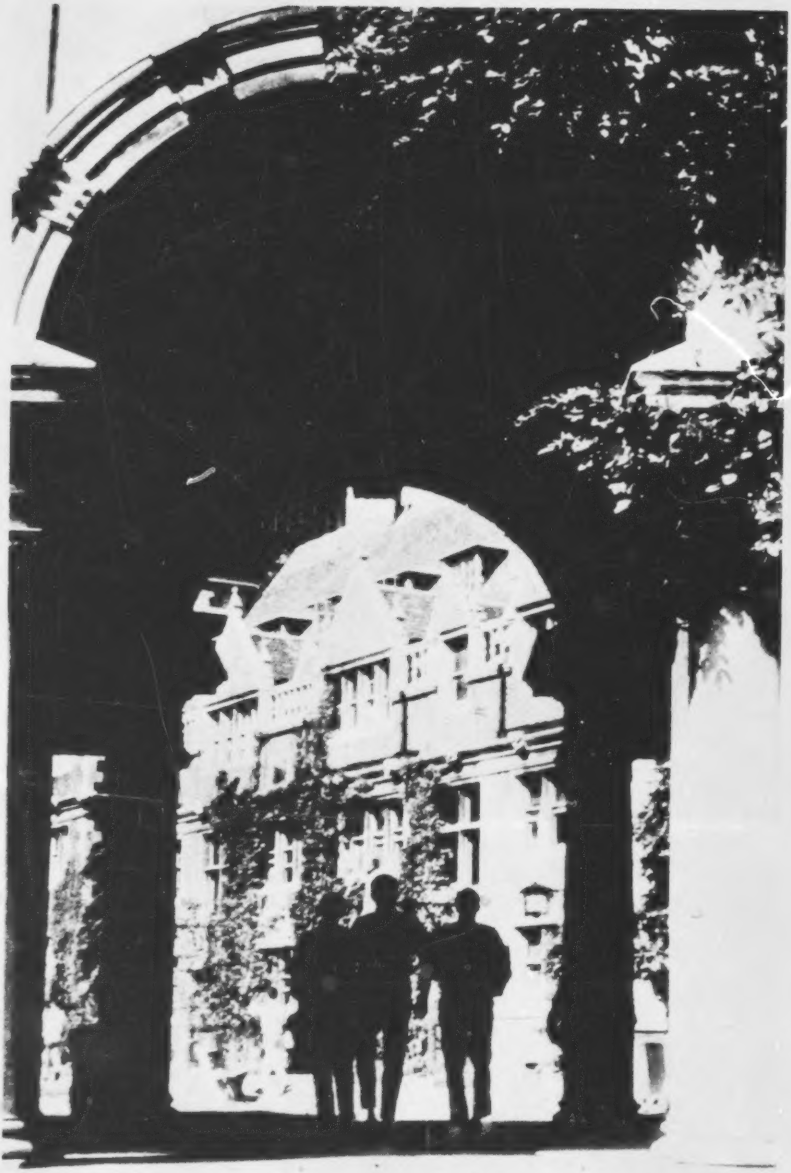
Let your imagination run loose and think of all the advantages NETF can bring to Americans of all ages, and all backgrounds under a funding system that is self-liquidating.

NETF opens up a new future for Americans of all ages and backgrounds.

NETF can revolutionize the future of our great nation and make it possible for all our people to enjoy richer, fuller lives.

Milton J. Shapp
Governor of Pennsylvania

February, 1976



FOREWORD

My wife Muriel was raised and educated in Brooklyn.

I was raised and educated in Cleveland.

Now we live and pay taxes in Pennsylvania. Neither New York City, or state; nor Cleveland or Ohio, get any return on the long-term investment these governments made to educate us.

No business can afford to make substantial long-term investments without assurances of future yield. Yet that is exactly what is happening in the United States. Many cities and states bear the long-term cost of educating young people, but too often do not enjoy the financial return.

This is a major reason why public education is so seriously under-funded today in many cities and states, and why some of our major cities are in such serious financial shape.

The establishment of a National Education Trust Fund (NETF) can open a new era in America. It will permit communities and states to expand all types of education and training facilities without financial risk. NETF will also create many additional jobs *in the educational system itself.*

NETF will make it possible for all our young people—regardless of race, sex, creed, ethnic origin or family wealth—to obtain the best possible education and training so that they will become better prepared to participate fully in tomorrow's economy.

And most importantly, NETF will provide all of these benefits, eliminate the need for local property taxes to finance public education, and yet, maintain the present system of local control of educational policymaking.

NETF is not a fanciful vision. It offers a practical, businesslike way to finance an expanded, improved education system in America.

The adoption of NETF can spark greater growth and enrich more lives during America's third century than any other single program.

NETF is solidly based upon established principles of investment. Just read this booklet and judge for yourself. Then sit back and think of all the things that can be accomplished in your neighborhood, your city, your state and in the nation by the establishment of a National Education Trust Fund.

NETF:
A Practical Way to Finance An Expanded Educational System In the United States

In previous decades it was not necessary for a person to be formally educated to hold a job. A man could be productive in a mill, on a farm, or in a mine for his entire lifetime without ever learning how to read, write or do simple arithmetic.

Women spent much of their time doing household or farm chores, or working in shops where hand skills were more important than book knowledge.

Life was simpler and so were the skill and knowledge requirements for wage earners.

All this has changed. Very few jobs are available in today's stores, offices, laboratories, factories or mills for the uneducated or unskilled. Even where a specific job calls for but little book knowledge, employers who have a choice will hire a person with greater knowledge because such a worker can be trained more readily to become a more versatile employee.

Thus, more and more, the doors of opportunity are being slammed in the faces of undereducated, unskilled people, who then become a drag on the economy.

A study made in Pennsylvania several years ago revealed that 79 percent of the heads of welfare families had failed to go beyond the eighth grade in school and only 3 percent had any kind of post high school training.

The lesson is obvious. Either we provide the opportunity for all our people to receive better education and training so they can become wage earners, or we are going to continue to pay out huge sums for many years to sustain them.

This waste is not only costly; it is needless as well. By educating all of our people and helping them obtain the knowledge and skills they need to be productive, we can give them the ability to join the mainstream of American life and become taxpayers instead of wards of the state.

Education is the key to better jobs and higher income for individuals, greater output for the nation's economy, and increased future tax *yields* for all levels of government.

Education is the highest yield investment this nation can make. Every dollar spent to develop our human resources will be returned many times over during a person's working lifetime. Not only do educated people have greater chances of obtaining jobs

and staying off welfare, but also they are less likely to resort to violent crime to subsist. Thus, education leads to a more satisfying life and a richer, safer society.

Yes, an investment in education will more than pay for itself. However, because of the way we finance public education in the United States today, millions of young people are denied an opportunity to participate fully in our society.

The Property Tax Problem

Much of our problem is that we rely heavily on local property taxes to pay for a large share of the cost of public schools.

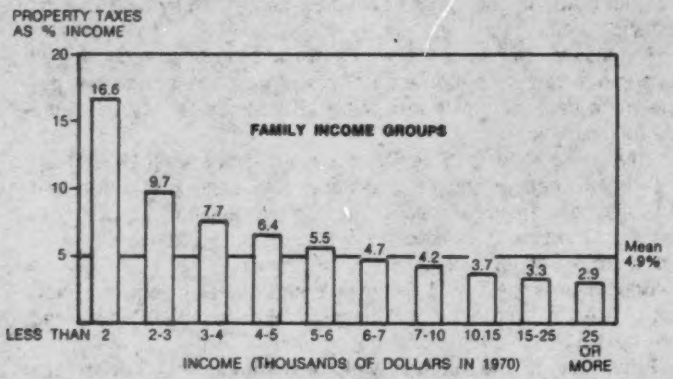
But, property taxes represent the worst possible source for financing education, since they are inelastic and regressive.

The first characteristic means that tax yields grow more slowly than overall increases in economic activity. For every 1 percent increase in income, property tax revenue grows less than 0.8 percent. Thus, property tax *rates* must be raised constantly just to keep pace with rising prices as well as to meet increasing demands for education. Home, factory and store owners know this all too well.

Second, property taxes are regressive, placing a greater burden on families with lower income—precisely the people least able to afford taxes. (Chart I shows this clearly.) As family income declines, the effective property tax rate *increases*.

CHART I

Property Taxes as a Percentage of Family Income for Owner Occupied Single Family Homes Decrease as Family Income Increases



Source: Advisory Commission on Intergovernmental Relations, Financing Schools and Property Tax Relief—A State Responsibility, 1973.

Moreover, there is absolutely no relationship between the artificially assessed value of a home, factory, store or office building and the value of an education. It is this taxation without relationship (in addition to the high rates) which has contributed to the growing anger among taxpayers—particularly among senior citizens who are having such a difficult time subsisting on their meager pensions and Social Security.

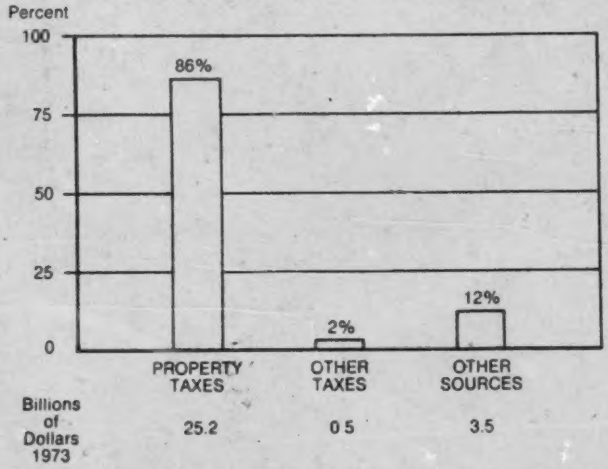
Property taxes also create serious economic and social consequences in a community by encouraging the abandonment of homes and the flight of businesses from many of our older, established areas. The loss of hundreds of thousands of jobs in New York, Philadelphia, Baltimore, Newark, Detroit and a score of other cities, and the decay and deterioration of entire neighborhoods, are directly related to property tax inequities.

Yet, under existing financial arrangements, local school districts in the nation must raise over half of the revenue needed to fund primary-secondary education, and nearly 90 percent of this local revenue comes from the property tax. (See Chart II.)

In recent years, this source has been stretched to its limit, and states, with their broader tax bases, have had to increase their share of the load. (See Chart III.)

CHART II

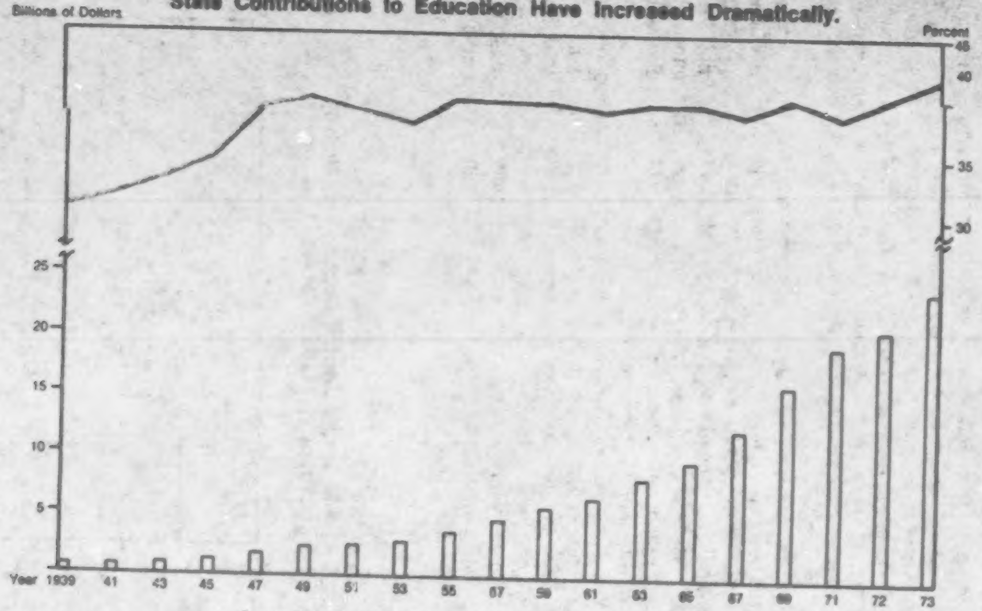
Local School Districts Depend Very Heavily on Property Taxes to Finance Education



Source: Advisory Commission on Intergovernmental Relations, Financing Schools and Property Tax Relief—A State Responsibility, 1973

CHART III

State Contributions to Education Have Increased Dramatically.



Source: National Center for Education Statistics, Digest of Educational Statistics, 1974 and unpublished data.

Property taxes cannot be reduced or eliminated as a source of funds for education without fundamental reform of the entire method of financing education. Further attempts to shore-up the present financing system simply are not feasible. For example, the Advisory Commission on Intergovernmental Relations analyzed the possibility of substituting state funding entirely for local property taxes, but concluded that in 1973 it would have cost the states an additional $25 billion to do this. This was equal to about 20 percent of total general fund expenditures by the states that year.

It would necessitate such staggering increases in state taxes that this method is not practical.

Financing Higher Education

The present financing structure for higher education is somewhat different—but no more equitable or efficient. The states provide the largest single source of funds for higher education, more than one-third in recent years. (See Chart IV.) But close behind are student tuition and fees which account for more than one-quarter of higher education revenue.

As the costs of education have skyrocketed, many private schools, colleges and universities have had to increase tuition regularly in order to balance their budgets. In fact, average tuition at institutions of higher education has doubled in the last 10 years and by 1980 it is expected to total $4,000 a year at many private institutions. At the same time, schools and colleges have been cutting back programs and firing faculty to alleviate the cash squeeze.

Reliance on tuition and student fees for a large share of private school budgets excludes large segments of our society from the benefits of post high school education. Unless something is done to change this situation, the road to economic and social progress will be narrowed or closed to millions of young people whose parents cannot afford to pay tuition.

Pressing Need for Reform

Thus, it is becoming ever more obvious that our system of financing must be reformed. States, local governments and private schools, colleges and universities by themselves cannot continue to supply the money needed to support the growing needs for education in America. Nor can the student.

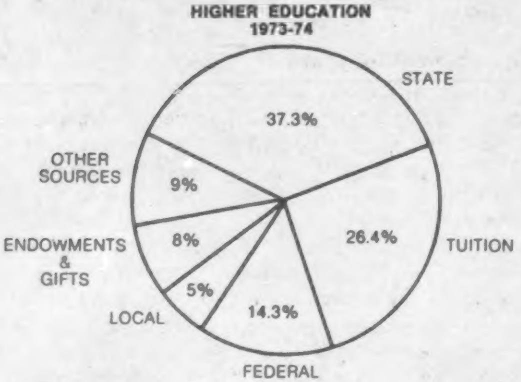
The Federal government must play a major new role in financing education, because neither the benefits of schooling on the one hand nor the problems of welfare and crime on the other are restricted by city and state boundaries.

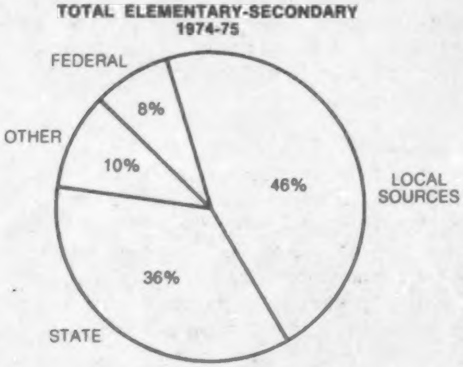
But increased Federal funding must not upset the basic responsibility which the states and local governments have for education under our system of government.

It must not change the nature of local control of our schools. And it must not compromise the independence of our private colleges and universities—an independence which has fostered creativity and academic excellence.

CHART IV

Educational Expenditures by Educational Level and Source of Funds





Source: National Center for Education Statistics, Digest of Educational Statistics, 1974 and unpublished data.

The Role of NETF

Against this background, examine the straightforward and practical way to finance education through a National Education Trust Fund.

The Federal government would establish the NETF and invest the "seed money" to get the program started.

Once established, NETF could supply funds to all public school systems to replace revenue now raised by local property taxes. This program could be phased-in over a period of several years.

NETF could also supply funds to students attending private schools, colleges and universities, and vocational schools, largely replacing present tuition payments.

Day care costs could also be financed through the NETF.

In each of these areas, the Trust Fund could allocate an annual payment for each student, based on his or her course of study and particular needs. Schools would receive a basic entitlement for each student. A higher amount would be granted if that student were handicapped, or from a disadvantaged family. Similarly, colleges and graduate schools could receive an annual entitlement which reflected both the cost of their programs and the value of the programs in meeting national needs. For instance, students enrolled in health programs might receive a larger-than-average entitlement in order to stimulate an increase in trained health personnel.

When in full operation, NETF could finance half of the cost of education at all levels. Table 1 shows how the Trust Fund could affect present educational finances. Had it been fully operable in 1974, it could have contributed $28.9 billion in place of local property taxes and $14.2 billion in place of private tuition and fees. Thus, local expenditures could have been reduced from $33.6 billion to $4.7 billion, and tuition, fees and other funds, from $27.8 billion to $13.6 billion.

TABLE 1

How NETF Could Affect Educational Financing

(Billions of Dollars)

Source	**Actual 1974 Expenditures**	**NETF Contribution**	**Other Contributions With NETF**
Federal	$ 12.1	$12.1	—
State	36.9	—	$36.9
Local	33.6	28.9	4.7
Private Tuition and Other	27.8	14.2	13.6
TOTALS	$110.4	$55.2	$55.2

Note: Present Federal contributions are channeled through NETF. Local property taxes eliminated completely in this example.

Source: Actual 1974 expenditures from National Center for Education Statistics, Projections of Educational Statistics to 1983-1984.

Repayment to NETF

Once established, the NETF would be self-sustaining, with no additional commitments needed from general Federal revenues.

Repayment for the NETF advance would begin when a student decides to leave the educational system—after high school, trade school or college—and obtains employment. At that time a small surcharge would be added to his or her Federal income tax each year to repay NETF for funds previously invested in that person's education.

The surcharge would vary, depending on the number of years a student spent in school, the type of education received, and, of course, upon the level of his or her income. One analysis of repayment suggests that for typical family, a rate of less than one-quarter of one percent (0.25%) of income for each year of education, payable from age 25 through 64, would be sufficient to reimburse the NETF investment. (A more detailed discussion of this analysis is contained in Part II.)

This surcharge would eliminate entirely the need for local property taxes to finance primary and secondary education, and largely reduce the level of tuition payments for private schools, and higher education institutions.

The advantages of replacing the property tax-based system with the NETF should be obvious.

First, NETF would fund education based on an elastic tax, the income tax, with yield increasing faster than the growth in the national economy. Thus there would be no need for constant rate increases, as there is with the property levy.

Second, the NETF surcharge would be a progressive tax. Those people with higher incomes would reimburse the NETF at a higher rate than those with lower incomes. Moreover, the NETF surcharge would be collected only from people actually employed, and only up to age 64. Thus, older Americans—many of whom are on fixed incomes—and who are among the most burdened by property tax inequities—would receive substantial, immediate relief by eliminating local property levies, and would not have to pay any surcharge for education upon reaching age 65.

Senior citizens who rent homes now would also benefit because the elimination of real estate taxes should be reflected in the form of reduced rents.

Third, by collecting the surcharge along with the Federal income tax, the cost and administrative burdens of collection for NETF would be minimized.

Fourth, through NETF, taxation without relationship would end. The task of paying for education would be shifted from the backs of property *owners to the actual beneficiaries of that education—namely the educated people.*

Adults and the elderly, who receive few of the benefits of the schooling of *today's* children, would be relieved of much of the task of financing this education. Instead, once the NETF is in full operation, beneficiaries would be required only to pay back to NETF based on the costs of *their own* education.

NETF: An Investment in the Future

The NETF plan is that simple and straightforward.

It could operate much as the present Federal Highway Trust Fund does, on a revolving, self-liquidating basis. Construction costs of the U. S. Interstate Highway System were paid by the Federal Highway Trust Fund. Repayment has been achieved by collecting a 4¢ per gallon gas tax, and excise taxes on the sale of tires and accessories.

Through the end of 1973, the Highway Trust Fund paid out $56.5 billion for construction of the Interstate Highway System and had already collected $59.5 billion from the special user taxes on gasoline, tires and accessories.

In addition, the Federal government has received many billions of dollars in income taxes from millions of new jobholders in factories, warehouses, office buildings, truck stops, gas stations, hotels and restaurants that have located along these new highways. The investment made by the Federal government in constructing the interstate highways has been repaid many fold already, yet there are still many years of useful life in the system.

When NETF is in full operation, its return on investment would be enormous (much greater than that of the Highway Trust Fund) since annual earning increases of the ex-students making repayments would greatly exceed the rate of cost increases for educating the students then in the education system.

From the standpoint of earnings, investing in people produces a higher yield than investing in new factories or transportation systems. Of course it is obvious that both types of investments are needed, but without a trained work force to run the new factories and design the transportation systems, neither the economy nor our society will progress.

It is clear that real reform of our system for financing education must be based on the sound principle of business investment.

Funds used for improving educational quality and expanding the output of the education system must be considered as a *long-term* investment to develop the full talents of our people. These funds should not be considered any longer as an operating cost of government.

Investing sufficient dollars in education today will pay huge dividends for years to come in the form of higher incomes for our citizens and reduced costs of welfare, unemployment and crime prevention. This will also help more of our people escape the frustrations of poverty and ignorance and become useful, taxpaying citizens.

For further evidence of the fiscal soundness of NETF we need look only as far as the nation's experience with the G.I. Bill of Rights after World War II.

A recent study by the Pennsylvania Office of State Planning and Development reveals that the outlays for education under the G.I. Bill, over the years since its implementation in 1945, have totaled $35.3 billion.

However, it is estimated that veterans educated under the program will benefit by $1,770 billion in additional income over their lifetimes, and additional revenues collected by the United States Treasury on the increased earnings of these trained ex-G.I.'s will total $595 billion. This represents a tremendous yield on a $35.3 billion investment.

The government's investment in the post-World War II G.I. education program will pay for itself 16 times over in terms of additional tax revenues to the Federal government. These figures do not include increased local and state tax revenues from these ex-G.I.'s, nor do they include the stimulation given to the private economy as the ex-G.I.'s spend this added income for cars, homes, food and clothing and other consumer items, creating many hundreds of thousands of new jobs in the process.

The return on investment in education is so enormous that this nation should not hold back for one moment in adopting the NETF principle and making the major investments needed to maximize the education and training of every person who desires to participate.

Achieving Equal Educational Opportunity

Millions of Americans are denied access to quality education solely because of the poverty of their parents and neighbors or the absence of prosperous industries in their communities. This is true largely because of the discriminatory way in which education is financed presently with heavy reliance on local property taxes and student tuition and fees.

School districts comprising large inner city areas and poor rural towns must levy taxes at two or three times the rates levied in wealthy communities and suburban areas just to finance a bare-bones school budget. Even then, it is often impossible to pay for the number and quality of teachers, the buildings and the instructional materials needed to provide a good education.

Undoubtedly this issue lies behind the destructive conflict over forced school busing which is shattering community life in cities like Boston and Louisville.

The fact is that today we are not adequately financing education to meet the needs of all Americans. Blacks and whites are fighting to gain—or hold on to—a piece of the pie which is too small to begin with. They are doing so because the communities in which they live are unable to provide a quality education for all.

With NETF much of this could be changed. The education investments made through the Trust Fund would stimulate an expansion of the quantity and an increase in the quality of education. There is, in fact, no way to increase integration and to improve the quality of education in our major cities without solving the underlying problem of adequately financing a better system of education.

NETF could provide adequate financing for magnet schools. Through NETF, existing school buildings could be equipped and staffed to provide special courses that would attract both white and black students. New magnet schools could be built to satisfy future needs.

Today, the differences in funds available for financing education in different cities and in different parts of the country are striking. This is illustrated by Table 2.

TABLE 2

Per Capita Expenditures by States for Public School Education, 1974

State	Dollars
Alaska	$515
Delaware	375
New York	359
California	326
Maryland	326
Michigan	326
Arizona	322
Minnesota	321
District of Cloumbia	311
Nevada	296
Wyoming	295
New Mexico	292
Hawaii	285
Vermont	285
New Jersey	284
Pennsylvania	282
Colorado	281
Montana	279
Connecticut	276
Illinois	271
Oregon	270
U. S. Average	**268**
Iowa	263
Washington	261
Massachusetts	260
Utah	$253
Wisconsin	251
Rhode Island	244
Virginia	244
Indiana	240
Maine	239
Nebraska	238
Florida	235
North Dakota	234
Ohio	229
Louisiana	225
South Dakota	225
North Carolina	221
Idaho	216
Texas	216
Kansas	212
Missouri	210
South Carolina	210
New Hampshire	209
Georgia	204
West Virginia	203
Mississippi	199
Oklahoma	194
Arkansas	186
Tennessee	181
Alabama	163
Kentucky	163

Source: U. S. Department of Commerce, Statistical Abstract, 1974, Table 214.

States like Kentucky, Alabama, Tennessee, Arkansas and Oklahoma spend comparatively little on each pupil, while states like Alaska, Delaware, New York, California and Maryland rank at the top of this scale.

While the cost of education is not an absolute indicator of its quality, there clearly is some relationship. Disadvantaged and handicapped pupils who are concentrated in school districts cannot be educated successfully or trained without special facilities. To require their families and communities to bear this added burden is to deny them their right to a full education.

NETF would be a major force for equalizing educational opportunity throughout the nation. It would eliminate the dependence of public education on the local property tax, and would reduce the wide variations in local ability and effort to support education.

NETF Fund Distribution

NETF would have to distribute funds after assessing individual pupil needs and the costs of meeting them.

Such an approach could be formulated by assigning weights to the per-pupil costs of various types of education. Setting the cost of educating an average elementary pupil as a base of 1.00, the National Educational Finance Project found that the cost of educating a physically handicapped pupil is 3.25; that of a youngster in a compensatory education program, 2.00; a kindergarten child, 1.30; and a senior high school student, 1.40.

These particular weights may require further study since they are based on "representative best practice" of the present system (which is a bad one), rather than on objective assessments.

New Opportunities for Higher Education

Family wealth also bars thousands of otherwise qualified students from the benefits of college and graduate school education. Because their families cannot afford the steep tuition charges at many colleges and universities, some students are restricted in their choice of schools while others may be denied entry completely.

NETF would expand access to higher education opportunities for all qualified students because it would greatly reduce reliance on tuition and student fees to finance programs.

Post-secondary school financing might also be based on a system of weights reflecting the costs of various types of training. For example, the Province of Ontario, Canada, has pioneered in this approach by allocating Provincial revenues to colleges and universities based on weights equating the first year of a general liberal arts education with a weight of 1 and Ph.D.'s and medical degrees with a weight of 6.

Greater weight could be given to programs that cost more to administer and that have "critical need," such as medicine, social service, or trade skills, thereby encouraging young people to enter these fields. Institutions would be encouraged to provide the more expensive curricula without a fear of budget deficits. In any event **NETF would promote the philosophy that access to higher education—whether academic or vocational—should be based on talent and motivation and not on wealth.**

Distributing NETF Funds

The process of distributing NETF money could also aid in increasing student choice and promoting quality changes in colleges, universities and local school systems.

A program of allocating per-student funds directly to parents or college students in the form of vouchers was experimented with in the early 1970's as a means of increasing administrative sensitivity to the problems of individual students and also to facilitate programs for desegregation. A voucher program could be used to distribute NETF funds and allow greater competition among schools, allowing students to choose programs most suited to their needs and desires.

For Higher Education, vouchers would allow students to attend public or private institutions dependent on their abilities and desires. Schools could then be free to accept students on ability alone. The wealthier institutions could even reallocate tuition scholarships as subsistence grants to allow poor students to attend a college away from their homes.

Through NETF, financing would be guaranteed for every student in the nation commensurate with his or her needs and talents. While the NETF would not pay for the complete cost of this education, it would guarantee funds based on needs.

Federal Support Would Strengthen Local Control

Present local and state responsibility and control of public and private basic education will not be weakened by NETF. *The NETF need not be involved in the administration of education.* In fact, Federal financing would make possible a better realization of local control over schools.

This is so because at the present time many local school boards spend the bulk of their energy on fiscal matters—balancing budgets, raising taxes and selling bonds. If this tremendous burden were removed from their shoulders, they would be able to concentrate on the real challenges of education: what and how our children are learning in the classroom.

Similarly, college and university administrators would be able to turn their attention from financial to academic matters.

The NETF should promote greater accountability on the part of students and educators. Since the repayment feature of the plan means that students after graduation will pay for a major share of the cost of their own education, they will be more likely to evaluate relative costs and benefits. Because each year of education will increase the payback rate, education, especially at the post-secondary school level, will be more subject to cost-benefit analysis by its recipients than at present.

Moreover, NETF should encourage more efficient development of our educational resources since a student will be more serious about his or her education and more likely to remain in school only as long as he or she expects real benefits to result.

Repayment and Financial Estimates for NETF

This section presents an overall view of the cost and repayment aspects of the NETF. It illustrates how NETF would work and presents some of the broad financial considerations related to its operation.

There are many alternatives for implementing the broad NETF concept. The models presented here are meant to be illustrative only, and certainly can be modified as analysis and discussion of the idea proceeds. Although they are tentative, they do present many of the basic issues; they suggest levels of repayment which would be required to make NETF self-liquidating, and they illustrate some of the mechanics of both start-up and repayment.

A Financial Model for Repayment

A broad outline of the reimbursement model is contained in Part I. In brief, it assumes that those who benefit from NETF education investments repay the Trust Fund through a surcharge on their incomes. This surcharge would be collected during the beneficiary's prime working years, from age 25 to age 64. Once the NETF is fully operable, a typical *family* would pay a surcharge ranging from 3.00 percent of adjusted gross income, if both the family head and spouse had less than eight years of schooling, to 4.10 percent if both adult members had high school and college degrees and four years of graduate training. Table 3 shows repayment rates for these typical families.

In this model the surcharge rate increases in direct relationship with educational attainment. In other words, college graduates pay the tax at a higher rate than do high school graduates, and so forth.

Over the long term the modest repayment rates represented in Table 3 will make the NETF self-sustaining. In order to verify this, a repayment model was developed to calculate the minimum rates required to repay an initial investment in an individual's education.

TABLE 3
REPRESENTATIVE REPAYMENT RATES FOR FAMILIES WHOSE HEAD IS 25-64 YEARS OLD

Educational Attainment	Surcharge Rate on Adjusted Gross Income
Less than 8 years	3.00
8 years	3.21
10 years	3.28
12 years	3.48
2 years college	3.52
4 years college	3.68
6 years college and graduate school	3.80
8 years college and graduate school	4.10

A number of simplifying assumptions were made because of limitations in the data available, and also because the model is for illustrative purposes only.

The model used the following data:

1. Year-by-year enrollment projections for basic and higher education for the cohort of all children who were in the first grade in 1975. The data and general methods used were those contained in a publication of the National Center for Education Statistics, Projections of Education Statistics to 1983-84.
2. Average per-pupil costs for all levels of school for the period 1974-1994. These were developed using the data and general methodology contained in the above National Center for Education Statistics publication.
3. Lifetime income estimates by educational attainment level for this cohort of children. These were developed from data in the U. S. Census Bureau publication, Annual Mean Income, Lifetime Income and Educational Attainment of Men in the United States, for Selected Years, 1956 to 1972, and Money Income in 1972 of Families and Persons in the United States.

Standard life tables for males in 1972 were applied to the survival of families. It was also assumed that the educational attainment of the head of the family and the spouse were identical.

Census Bureau estimates for family income in 1972 by the age and educational attainment of the family head were projected to 1994, when the 1975 cohort would be 25 years old, assuming an average annual *real* growth of 2 percent. For these purposes, it was also assumed that the distribution of income by age and educational attainment would not change significantly. Next, income totals and means for these families were estimated over a 40-year period when the household head was 25 to 64 years old. Again, a 2 percent annual real growth in income was assumed.

Next, costs of education were estimated for typical students in the 1975 cohort for each level of educational attainment. The NETF share was calculated (50 percent of this cost each year), one-fifth of the NETF share was charged to general Federal revenues and the remainder (40 percent of the total) was accrued as a debt to be repaid through the surcharge. These annual NETF outlays were accrued with interest for the period 1974-1994.

Principle and interest estimated above were assumed to be amortized over a 40-year period. Using the mean income estimates, and assuming further that both the head of a household and the spouse had the same level of educational attainment, crude surcharge rates were derived.

For example, assume a child in kindergarten in 1974 completed four years of college in 1990. The NETF would invest \$18,215* (with accrued interest) in that child's education by the time it was completed. Average income for a family whose head has a college degree is estimated at \$1,651,000 for a 40-year period. This assumes real growth in income of 2 percent a year over the 1972 base, and it assumes survival rates for the family the same as those for all males in 1972. By paying an annual sum equal to about 3.5 percent of income over a 40-year period, this family can amortize the investment made to give two adult members an education through the fourth year of college.

Some adjustment is required in these crude rates to make them progressive with education. (The crude rates were actually higher for those with little education because as educational attainment increases lifetime income increases even faster.) This adjustment meant increasing the rates for those with four years of college education and over, and lowering somewhat the rates for those with less than eight years of primary education. It is these adjusted rates which are displayed in Table 3.

One refinement in this model might be to add an "opt-out" provision so that NETF beneficiaries could make a lump sum payment in lieu of taxes at any time in their lives. This payment—which could be set at a level of two or three times the NETF investment for that beneficiary—would insure that those wage earners who have incomes at the very high end of the scale do not make disproportionately high repayments. Such a provision is part of most of the Educational Opportunity Bank proposals for financing higher education.

Financial Estimates: Start-up of NETF

For purposes of the cost model it is assumed that the NETF would finance one-half of the cost of education at all levels, from pre-primary through graduate school. If the Trust Fund were in full operation in 1974, it would have contributed over \$55 billion to the cost of education, reducing state, local and private contributions by over $43 billion. The need for local property taxes would be eliminated and tuition and student fees would be substantially reduced.

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*All figures in Part II are 1974 dollars.

Note that this cost model, as does the repayment model, assumes NETF funds from two sources: 1) redirection to NETF of present general revenue outlays by the Federal government which total about 10 percent of overall education expenditures in the nation, and 2) the surcharge which should finance 40 percent of current education outlays.

While NETF investments would be self-liquidating over the long run via the surcharge, in the initial years annual surcharge income to the Trust Fund would not match annual outlays. This means that income from the surcharge would have to be supplemented by additional Federal revenue until enough time had passed so that the repayments from NETF beneficiaries began to match the annual NETF outlays. By phasing-in the NETF over a period of years, these Federal revenue requirements could be minimized.

In this model, the NETF would gradually expand over a ten-year period to cover half of the costs of education at all levels. In this example, the NETF would finance all of the costs of those in kindergarten and the first year of college the first year; kindergarten and first grade and the first two years of college the second, and so forth until all education levels were covered.

Table 4 displays the increase in NETF contributions over the 10-year phase-in. In the first year, the Trust Fund would add $4.0 billion to education revenues, in the second year, $8.3 billion, and so forth. By 1986 when the NETF would be fully operable it would contribute $47.3 billion. These contributions are *in addition to* the present Federal aid-to-education programs which are assumed to continue to finance about 10 percent of overall education expenditures.

TABLE 4
The Impact of NETF: Additional Contributions to Educational Expenditures Available by Phasing-In NETF, 1977-1986
(All Figures Are 1974 Dollars)

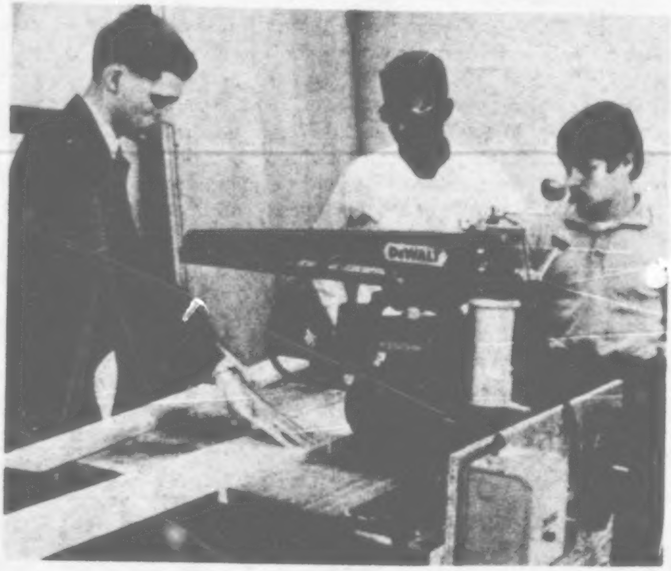
Year	Billions of Dollars
1977	$ 4.03
1978	8.31
1979	12.45
1980	16.66
1981	20.49
1982	$24.13
1983	27.57
1984	31.09
1985	37.53
1986	47.33

Note: These represent additions to present Federal contributions which are assumed to continue at current levels.

Source: Derived from enrollment and cost-per-pupil projections described in text.

The repayments by NETF beneficiaries build up much more slowly over this period since in this model only those who actually benefit from the NETF make repayments. Furthermore, in its initial years these repayments are prorated so that if the NETF contributes to only one or two years of a student's education, that student repays at only a fraction of the surcharge rate.

One indication of the revenue potential of the NETF surcharge can be seen by applying the rates to the present population base. Applying the tax rate for families in Table 3 to the Census Bureau estimates of family income by educational attainment of the family head (age 25 to 64 years old) in 1972 produces $20.6 billion in revenue. The surcharge applied to unrelated individuals produces $1.6 billion. If real annual growth of 2 percent is assumed between 1972 and 1986, when the NETF could be fully operable, the surcharge yield increases to $29.9 billion. However, educational attainment of the population will also increase over time and this would add still more to the yield of the surcharge by increasing the surcharge rate paid by the average family.



Governor SHAPP. I also have a copy of President Kennedy's speech at Yale on June 11, 1962, that I referred to several times You could put this into the record as well.

Mr. DANIELS. Is there any objection to also introducing into the record the speech made by the late President Kennedy at Yale, to which the Governor referred to in his testimony?

Hearing none, both plans and former President Kennedy's speech will be filed with the record of these proceedings.

[The speech referred to follows:]

234 Commencement Address at Yale University. *June 11, 1962*

President Griswold, members of the faculty, graduates and their families, ladies and gentlemen:

Let me begin by expressing my appreciation for the very deep honor that you have conferred upon me. As General de Gaulle occasionally acknowledges America to be the daughter of Europe, so I am pleased to come to Yale, the daughter of Harvard. It might be said now that I have the best of both worlds, a Harvard education and a Yale degree.

I am particularly glad to become a Yale man because as I think about my troubles, I find that a lot of them have come from other Yale men. Among businessmen, I have had a minor disagreement with Roger Blough, of the law school class of 1931, and I have had some complaints, too, from my friend Henry Ford, of the class of 1940. In journalism I seem to have a difference with John Hay Whitney, of the class of 1926—and sometimes I also displease Henry Luce of the class of 1920, not to mention also William F. Buckley, Jr., of the class of 1950. I even have some trouble with my Yale advisers. I get along with them, but I am not always sure how they get along with each other.

I have the warmest feelings for Chester Bowles of the class of 1924, and for Dean Acheson of the class of 1915, and my assistant, McGeorge Bundy, of the class of 1940. But I am not 100 percent sure that these three wise and experienced Yale men wholly agree with each other on every issue.

So this administration which aims at peaceful cooperation among all Americans has been the victim of a certain natural pugnacity developed in this city among Yale men. Now that I, too, am a Yale man, it is time for peace. Last week at West Point, in the historic tradition of that Academy, I availed myself of the powers of Commander in Chief to remit all sentences of offending cadets. In that same spirit, and in the historic tradition of Yale, let me now offer to smoke the clay pipe of friendship with all of my brother Elis, and I hope that they may be friends not only with me but even with each other.

In any event, I am very glad to be here and as a new member of the club, I have been checking to see what earlier links existed between the institution of the Presidency and Yale. I found that a member of the class of 1878, William Howard Taft, served one term in the White House as preparation for becoming a member of this faculty. And a graduate of 1804, John C. Calhoun, regarded the Vice Presidency, quite naturally, as too lowly a status for a Yale alumnus—and became the only man in history to ever resign that office.

Calhoun in 1804 and Taft in 1878 graduated into a world very different from ours today. They and their contemporaries spent entire careers stretching over 40 years in grappling with a few dramatic issues on which the Nation was sharply and emotionally divided, issues that occupied the attention of a generation at a time: the national bank, the disposal of the public lands, nullification or union, freedom or slavery, gold or silver. Today these old sweeping issues very largely have disappeared. The central domestic issues of our time are more subtle and less simple. They relate not to basic clashes of philosophy or ideology but to ways and means of reaching common goals—to research for sophisticated solutions to complex and obstinate issues. The world of Calhoun, the world of Taft had its own hard problems and notable challenges. But its problems are not our problems. Their age is not our age. As every past generation has had to disenthrall itself from an inheritance of truisms and stereotypes, so in our own time we must move on from the reassuring repetition of stale phrases to a new, difficult, but essential confrontation with reality.

For the great enemy of the truth is very often not the lie—deliberate, contrived, and dishonest—but the myth—persistent, persuasive, and unrealistic. Too often we hold fast to the cliches of our forebears. We subject all facts to a prefabricated set of interpretations. We enjoy the comfort of opinion without the discomfort of thought.

Mythology distracts us everywhere—in government as in business, in politics as in economics, in foreign affairs as in domestic affairs. But today I want to particularly consider the myth and reality in our national economy. In recent months many have come to feel, as I do, that the dialog between the parties—between business and government, between the government and the public—is clogged by illusion and platitude and fails to reflect the true realities of contemporary American society.

I speak of these matters here at Yale because of the self-evident truth that a great university is always enlisted against the spread of illusion and on the side of reality. No one has said it more clearly than your President Griswold: "Liberal learning is both a safeguard against false ideas of freedom and a source of true ones." Your role as university men, whatever your calling, will be to increase each new generation's grasp of its duties.

There are three great areas of our domestic affairs in which, today, there is a danger that illusion may prevent effective action. They are, first, the question of the size and the shape of government's responsibilities; second, the question of public fiscal policy; and third, the matter of confidence, business confidence or public confidence, or simply confidence in America. I want to talk about all three, and I want to talk about them carefully and dispassionately—and I emphasize that I am concerned here not with political debate but with finding ways to separate false problems from real ones.

If a contest in angry argument were forced upon it, no administration could shrink from response, and history does not suggest that American Presidents are totally without resources in an engagement forced upon them because of hostility in one sector of society. But in the wider national interest, we need not partisan wrangling but common concentration on common problems. I come here to this distinguished university to ask you to join in this great task.

Let us take first the question of the size and shape of government. The myth here is that government is big, and bad—and steadily getting bigger and worse. Obviously this myth has some excuse for existence. It is true that in recent history each new administration has spent much more money than its predecessor. Thus President Roosevelt outspent President Hoover, and with allowances for the special case of the Second World War, President Truman outspent President Roosevelt. Just to prove that this was not a partisan matter, President Eisenhower then outspent President Truman by the handsome figure of $182 billion. It is even possible, some think, that this trend may continue.

But does it follow from this that big government is growing relatively bigger? It does not—for the fact is for the last 15 years, the Federal Government—and also the Federal debt—and also the Federal bureaucracy—have grown less rapidly than the economy as a whole. If we leave defense and space expenditures aside, the Federal Government since the Second World War has expanded less than any other major sector of our national life—less than industry, less than commerce, less than agriculture, less than higher education, and very much less than the noise about big government.

The truth about big government is the truth about any other great activity—it is complex. Certainly it is true that size brings dangers—but it is also true that size can bring benefits. Here at Yale which has contributed so much to our national progress in science and medicine, it may be proper for me to mention one great and little noticed expansion of government which has brought strength to our whole society—the new role of our Federal Government as the major patron of research in science and in medicine. Few people realize that in 1961, in support of all university research in science and medicine, three dollars out of every four came from the Federal Government. I need hardly point out that this has taken place without undue enlargement of Government control—that American scientists remain second to none in their independence and in their individualism.

I am not suggesting that Federal expenditures cannot bring some measure of control. The whole thrust of Federal expenditures in agriculture have been related by purpose and design to control, as a means of dealing with the problems created by our farmers and our growing productivity. Each sector, my point is, of activity must be approached on its own merits and in terms of specific national needs. Generalities in regard to Federal expenditures, therefore, can be misleading—each case, science, urban renewal, education, agriculture, natural resources, each case must be determined on its merits if we are to profit from our unrivaled ability to combine the strength of public and private purpose.

Next, let us turn to the problem of our fiscal policy. Here the myths are legion and the truth hard to find. But let me take as a prime example the problem of the Federal budget. We persist in measuring our Federal fiscal integrity today by the conventional or administrative budget—with results which would be regarded as absurd in any business firm—in any country of Europe—or in any careful assessment of the reality of our national finances. The administrative budget has sound administrative uses. But for wider purposes it is less helpful. It omits our special trust funds and the effect that they have on our economy; it neglects changes in assets or inventories. It cannot tell a loan from a straight expenditure—and worst of all it cannot distinguish between operating expenditures and long term investments.

This budget, in relation to the great problems of Federal fiscal policy which are basic to our economy in 1962, is not simply irrelevant; it can be actively misleading. And yet there is a mythology that measures all of our national soundness or unsoundness on the single simple basis of this same annual administrative budget. If our Federal budget is to serve not the debate but the country, we must and will find ways of clarifying this area of discourse.

Still in the area of fiscal policy, let me say a word about deficits. The myth persists that Federal deficits create inflation and budget surpluses prevent it. Yet sizeable budget surpluses after the war did not prevent inflation, and persistent deficits for the last several years have not upset our basic price stability. Obviously deficits are sometimes dangerous—and so are surpluses. But honest assessment plainly requires a more sophisticated view than the old and automatic cliche that deficits automatically bring inflation.

There are myths also about our public debt. It is widely supposed that this debt is growing at a dangerously rapid rate. In fact, both the debt per person and the debt as a proportion of our gross national product have declined sharply since the Second World War. In absolute terms the national debt since the end of World War II has increased only 8 percent, while private debt was increasing 305 percent, and the debts of State and local governments—on whom people frequently suggest we should place additional burdens—the debts of State and local governments have increased 378 percent.

Moreover, debts, public and private, are neither good nor bad, in and of themselves. Borrowing can lead to over-extension and collapse—but it can also lead to expansion and strength. There is no single, simple slogan in this field that we can trust.

Finally, I come to the problem of confidence. Confidence is a matter of myth and also a matter of truth—and this time let me take the truth of the matter first.

It is true—and of high importance—that the prosperity of this country depends on the assurance that all major elements within it will live up to their responsibilities. If business were to neglect its obligations to the public, if labor were blind to all public responsibility, above all, if government were to abandon its obvious—and statutory—duty of watchful concern for our economic health—if any of these things should happen, then confidence might well be weakened and the danger of stagnation would increase. This is the true issue of confidence.

But there is also the false issue—and its simplest form is the assertion that any and all unfavorable turns of the speculative wheel—however temporary and however plainly speculative in character—are the result of, and I quote, "a lack of confidence in the national administration." This I must tell you, while comforting, is not wholly true. Worse, it obscures the reality—which is also simple. The solid ground of mutual confidence is the necessary partnership of government with all of the sectors of our society in the steady quest for economic progress.

Corporate plans are not based on a political confidence in party leaders but on an economic confidence in the Nation's ability to invest and produce and consume. Business had full confidence in the administrations in power in 1929, 1954, 1958, and 1960—but this was not enough to prevent recession when business lacked full confidence in the economy. What matters is the capacity of the Nation as a whole to deal with its economic problems and its opportunities.

The stereotypes I have been discussing distract our attention and divide our effort. These stereotypes do our Nation a disservice, not just because they are exhausted and irrelevant, but above all because they are misleading—because they stand in the way of the solution of hard and complicated facts. It is not new that past debates should obscure present realities. But the damage of such a false dialogue is greater today than ever before simply because today the safety of all the world—the very future of freedom—depends as never before upon the sensible and clearheaded management of the domestic affairs of the United States.

The real issues of our time are rarely as dramatic as the issues of Calhoun. The differences today are usually matters of degree. And we cannot understand and attack our contemporary problems in 1962 if we are bound by traditional labels and wornout slogans of an earlier era. But the unfortunate fact of the matter is that our rhetoric has not kept pace with the speed of social and economic change. Our political debates, our public discourse—on current domestic and economic issues—too often bear little or no relation to the actual problems the United States faces.

What is at stake in our economic decisions today is not some grand warfare of rival ideologies which will sweep the country with passion but the practical management of a modern economy. What we need is not labels and cliches but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead.

The national interest lies in high employment and steady expansion of output, in stable prices, and a strong dollar. The declaration of such an objective is easy; their attainment in an intricate and interdependent economy and world is a little more difficult. To attain them, we require not some automatic response but hard thought. Let me end by suggesting a few of the real questions on our national agenda.

First, how can our budget and tax policies supply adequate revenues and preserve our balance of payments position without slowing up our economic growth?

Two, how are we to set our interest rates and regulate the flow of money in ways which will stimulate the economy at home, without weakening the dollar abroad? Given the spectrum of our domestic and international responsibilities, what should be the mix between fiscal and monetary policy?

Let me give several examples from my experience of the complexity of these matters and how political labels and ideological approaches are irrelevant to the solution.

Last week, a distinguished graduate of this school, Senator Proxmire, of the class of 1938, who is ordinarily regarded as a liberal Democrat, suggested that we should follow in meeting our economic problems a stiff fiscal policy, with emphasis on budget balance and an easy monetary policy with low interest rates in order to keep our economy going. In the same week, the Bank for International Settlement in Basel, Switzerland, a conservative organization representing the central bankers of Europe suggested that the appropriate economic policy in the United States should be the very opposite; that we should follow a flexible budget policy, as in Europe, with deficits when the economy is down and a high monetary policy on interest rates, as in Europe, in order to control inflation and protect goals. Both may be right or wrong. It will depend on many different factors.

The point is that this is basically an administrative or executive problem in which political labels or cliches do not give us a solution.

A well-known business journal this morning, as I journeyed to New Haven, raised the prospects that a further budget deficit would bring inflation and encourage the flow of gold. We have had several budget deficits beginning with a $12½ billion deficit in 1958, and it is true that in the fall of 1960 we had a gold dollar loss running at $5 billion annually. This would seem to prove the case that a deficit produces inflation and that we lose gold, yet there was no inflation following the deficit of 1958 nor has there been inflation since then.

Our wholesale price index since 1958 has remained completely level in spite of several deficits, because the loss of gold has been due to other reasons: price instability, relative interest rates, relative export-import balances, national security expenditures—all the rest.

Let me give you a third and final example. At the World Bank meeting in September, a number of American bankers attending predicted to their European colleagues that because of the fiscal 1962 budget deficit, there would be a strong inflationary pressure on the dollar and a loss of gold. Their predictions of inflation were shared by many in business and helped push the market up. The recent reality of noninflation helped bring it down. We have had no inflation because we have had other factors in our economy that have contributed to price stability.

I do not suggest that the Government is right and they are wrong. The fact of the matter is in the Federal Reserve Board and in the administration this fall, a similar view was held by many well-informed and disinterested men that inflation was the major problem that we would face in the winter of 1962. But it was not. What I do suggest is that these problems are endlessly complicated and yet they go to the future of this country and its ability to prove to the world what we believe it must prove.

I am suggesting that the problems of fiscal and monetary policies in the sixties as opposed to the kinds of problems we faced in the thirties demand subtle challenges for which technical answers, not political answers, must be provided. These are matters upon which government and business may and in many cases will disagree. They are certainly matters that government and business should be discussing in the most sober, dispassionate, and careful way if we are to maintain the kind of vigorous economy upon which our country depends.

How can we develop and sustain strong and stable world markets for basic commodities without unfairness to the consumer and without undue stimulus to the producer? How can we generate the buying power which can consume what we produce on our farms and in our factories? How can we take advantage of the miracles of automation with the great demand that it will put upon highly skilled labor and yet offer employment to the half million of unskilled school dropouts each year who enter the labor market, eight million of them in the 1960's?

How do we eradicate the barriers which separate substantial minorities of our citizens from access to education and employment on equal terms with the rest?

How, in sum, can we make our free economy work at full capacity—that is, provide adequate profits for enterprise, adequate wages for labor, adequate utilization of plant, and opportunity for all?

These are the problems that we should be talking about—that the political parties and the various groups in our country should be discussing. They cannot be solved by incantations from the forgotten past. But the example of Western Europe shows that they are capable of solution—that governments, and many of them are conservative governments, prepared to face technical problems without ideological preconceptions, can coordinate the elements of a national economy and bring about growth and prosperity—a decade of it.

Some conversations I have heard in our own country sound like old records, long-playing, left over from the middle thirties. The debate of the thirties had its great significance and produced great results, but it took place in a different world with different needs and different tasks. It is our responsibility today to live in our own world, and to identify the needs and discharge the tasks of the 1960's.

If there is any current trend toward meeting present problems with old cliches, this is the moment to stop it—before it lands us all in a bog of sterile acrimony.

Discussion is essential; and I am hopeful that the debate of recent weeks, though up to now somewhat barren, may represent the start of a serious dialog of the kind which has led in Europe to such fruitful collaboration among all the elements of economic society and to a decade of unrivaled economic progress. But let us not engage in the wrong argument at the wrong time between the wrong people in the wrong country—while the real problems of our own time grow and multiply, fertilized by our neglect.

Nearly 150 years ago Thomas Jefferson wrote, "The new circumstances under which we are placed call for new words, new phrases, and for the transfer of old words to new objects." New words, new phrases, the transfer of old words to new objects—that is truer today than it was in the time of Jefferson, because the role of this country is so vastly more significant. There is a show in England called "Stop the World, I Want to Get Off." You have not chosen to exercise that option. You are part of the world and you must participate in these days of our years in the solution of the problems that pour upon us, requiring the most sophisticated and technical judgment; and as we work in consonance to meet the authentic problems of our times, we will generate a vision and an energy which will demonstrate anew to the world the superior vitality and the strength of the free society.

NOTE: The President spoke at 11:30 a.m. on the Old Campus after being awarded an honorary degree of Doctor of Laws. His opening words referred to A. Whitney Griswold, President of the University.

Mr. Daniels. I now recognize my distinguished colleague from Connecticut, Mr. Sarasin. Do you have any questions of the Governor?

Mr. Sarasin. Yes, thank you.

Governor, I would like to thank you for taking the time to come before us and help us with our deliberations on this legislation. I have several questions. I would like to get back to the question Congressman Daniels raised with regard to the prevailing wage rate, the Davis-Bacon rates, and so forth, that are called for in the bill.

The economists that have spoken to us said that this can be counter-productive and will be attracting people who are not even now considered as part of the unemployed statistics, in addition to making it attractive, especially with the regional differences, for government employment in one part of the country as opposed to the other.

I wonder if you would comment further on that.

Governor Shapp. I think one of the cardinal blessings that we have had in the United States is the mobility of our labor force. I don't look upon it as being a major problem that one person looks at another job and says, "I can make more money over there," and therefore, leaves to take another job.

I think this is a part of the American system that has been very productive. I say this as a former employer of over 2,000 people.

We trained our people. In fact, we had an educational plan for our people where any of them could go to school and take any subjects even outside of electronics. Many of them went into the real estate business and other things on the courses we paid for while they were working for us.

I don't find anything wrong with that at all.

Mr. Sarasin. I don't think anyone objects to upward mobility. What we are talking about here is a deliberative program paid for by the taxpayers to create a job for everyone. There is a tremendous cost attached to that.

What the economists are saying is it becomes counter-productive and you tighten the labor market and then create the very pressure which creates a new wave of inflation beyond that.

Governor Shapp. I don't go with that at all. I think if you study the cause and effect relationships you will find that very seldom is that the cause.

If you go back you will find that most of your causes of these upward pressures have been due to decisions made by people who control money supply and control investment programs. I think the statistics bear it out.

Mr. Sarasin. Of course, that is not the testimony of the people who testified before us.

Governor Shapp. I realize that and the testimony of the professor ahead of me was just abysmal. I just wonder what kind of a cave he has come out of.

Mr. Sarasin. The cave is MIT. He is an economist and professor at that institution. I assume he has some credentials. There is also a difference of opinion on the subject.

Governor SHAPP. A very sharp difference of opinion. He is talking about 5.8 percent unemployment being a practical level. I say that is not only damaging to the whole social structure of this Nation, but even from a standpoint of the economics. If I own a building and I keep 5 or 6 percent of my apartments unoccupied, I have to raise the prices on the 95 or 94 percent of the apartments that are occupied in order to make out.

This becomes an inflationary pressure. If you are deliberately saying we are going to keep 5 or 6 percent of our people off jobs as a policy, you are creating a tremendous social pressure in this country.

You are also creating inflation in this country. I just don't buy his concepts. I think the way to have the least amount of inflation in this country is to have full employment so as to increase productivity of this nation.

Mr. SARASIN. I certainly didn't understand that to be his testimony. As I understood what he said was if we had expanded the money supply, looking back at it in hindsight, we possibly could have reached 5.8 percent unemployment. In other words, using monetary policies, as his testimony indicated, would only get us to that point.

He felt the next half percent could come from the other programs in this bill and the remaining 2.3 percent must come from public employment. That is why he addressed himself so heavily to public employment.

He feels the bill will ultimately get it there. All the methods in the bill will exhaust themselves very quickly. You can only go so far and you have got to pick up the difference with public employment.

You mentioned in your testimony several times the need for investment in the manner in which a prudent business would invest in the future, or borrow to do that. You also mentioned that State and local governments have an obligation not to spend any more than they take in.

I happen to think the Federal Government perhaps has that same obligation.

Governor SHAPP. Our obligation at the State level unfortunately, is constitutional and sometimes our programs are absolutely essential for our people but we can't entertain them. This is one reason why I have called for federalization of the welfare system, to throw some of these programs off the back of the States. State and local governments have a more regressive tax structure than you have in Washington. Also we have constitutional limitations so we are just foreclosed completely from taking care of many needs of the people.

I think it should be changed and that we should be working closer with Washington so that a lot of these programs are worked out with Washington so that the needs of our people are taken care of.

Mr. SARASIN. How high do you think taxes should be in this country to pay for all of these things, Governor?

Governor SHAPP. I don't think tax rates have to go up to accomplish it. On the contrary, if you have full employment you are going to find that your tax rates probably could even come down because you will have more people paying taxes and fewer drawing unemployment compensation, and drawing welfare payments.

You would have less tension in our society. I think you would find your cost for mental health care would go down. Your costs for prisons would go down if you had a society in which you reduced tensions.

I think the fundamental area is employment. A person who feels he is part of your 5.8 percent and won't be given a job is not going to be a person who is going to fit well into society. He will create all kinds of problems for the other people who are working.

Mr. SARASIN. So you are saying we can do this without increasing taxes?

Governor SHAPP. Yes, if you get a system going of investments and you start amortizing those investments over a period, just like business.

Mr. SARASIN. Governor, we are not talking about capital expenditures. We are talking about current expenditures.

Governor SHAPP. I know it but this is exactly what I am coming to. If you start amortizing your capital expenditures like business does, then your operating budget is going to be more in balance and you don't have to raise taxes.

Mr. SARASIN. I co-sponsored the legislation you are referring to to put the Federal Government on that kind of a budget program so we can separate capital from current expenditures and make better sense out of what we are doing.

I agree with you. I think it is essential we do that. But I am not sure we are still not going to be in a tremendous deficit situation if we are to try to do all these things for current expenditures without raising taxes.

You are asking the Federal Government print more money and discount the inflationary effect that has. I just can't understand that, frankly.

Governor SHAPP. A few months ago Mr. Burns said the money supply should be around 7½ percent or thereabouts. I think we could go into a rather substantial capital improvement program in this country with a 7½ percent increase in money supply.

I think we would have less inflation then than now by increasing productivity in this country above the two-thirds level where it is now. If we just continue to let our internal plant run down, then operating costs will rise, and we will have higher rates of inflation.

When you operate only at two-thirds productivity you have to absorb 100 percent of yor overhead against two-thirds production. This is tremendously inflationary.

- When you have a railroad system that is not safe at any speed so it takes a few days longer it raises costs. Also, you have a lot of breakage. This results in a higher cost of transportation. So you are better off making investment to modernize those railroads.

When you allow your cities to decay into a big ghetto, social costs rise tremendously, so does crime. So you are better off fixing up these buildings, by making the investment that will pay back over a period of years.

I think if you look at it from an investment proposition, you can see that this is going to be a lower cost rather than a higher cost to our whole society.

Mr. Sarasin. Do you support programs that are going to provide tax credits or tax incentives to help create jobs in the private sector and encourage expansion?

Governor Shapp. I support those types of programs but I don't think they are as effective as investment programs, nor do I think they would be as effective as changing depreciation schedules to allow people who make investments to write them off in faster periods of time at their own discretion (within certain limitations) so they can use depreciation as cash flow and as part of their regular capital formation.

Basically, most of the investment tax credit goes to companies that would be expanding anyway. So you are not really stimulating expansion in many areas. But I think if you had a flexible depreciation schedule you will find this would give greater stimulation to the economy for the same number of dollars.

Mr. Sarasin. Governor, you talked about money spent in welfare and unemployment compensation and other income maintenance programs. I assume you would agree we can't really offset one against the other. Everyone on welfare is not able to work.

We wouldn't be able to reduce those dollars. The economists who discussed this said we are talking about very few changes in that area, one-fourth or even less, as far as the substitution is concerned.

Which brings me to another subject. One of the difficulties we have had with some of the Federal job programs is they have amounted to substitution with the State and local government rather than picking up unemployed workers who are unemployed in the private sector in the way of general revenue sharing programs, which I think is a distortion of what we have tried to do here.

If that was to happen and the State and local governments were simply to take these programs called for in this legislation and merely substitute Federal dollars for local dollars we haven't saved anything.

Governor Shapp. Yes, you have because at the present time one of the ironies of the situation is that State and local governments are cutting back on their investment programs for constructing highways, bridges, convention halls and other programs of this sort.

The reason we are cutting back is because we don't have the funds. If the Federal Government picks up part of our payroll through this public employment then we will have funds available at local levels and State levels to go into other projects that we can't go into now, so we will be increasing employment on the basis of the fact that we will be going into these capital improvements.

The other thing is there has to be a complete review of this whole Federal, State, local relationship. Joe Jones and Emily Smith, private citizens who need services or need jobs, whatever it may be, don't understand the intricate relationship we have. You understand it from the Federal standpoint, I see it from the State standpoint and the mayors and others see it from the local standpoint.

But we are constantly squabbling about who has the responsibility for doing what, and in the meantime a lot of people fall through the crevices and don't get services. So I think we should be looking upon this as one government with certain responsibilities.

Since the Federal Government has a tax program that is more progressive than that of the States and local communities (because most local communities depend a great extent upon property taxes, which is the most inelastic and regressive tax of all), a lot of the funding programs would be more fairly provided by having Federal funding streams than by trying to pass this off to the local governments.

We are all serving the same people. True, the people in Pittsburgh are Pittsburghers but they are also Pennsylvanians, and they are Americans. So our Federal Government, State government and local government should be working together, and utilize the most progressive tax systems for raising funds.

Mr. SARASIN. I don't argue with that, Governor. I assume that is also a statement of strong support for revenue sharing, which I happen to agree with as well. We do do one thing well at the Federal level, perhaps only one thing and that is, collect taxes.

We don't spend it very well but we know how to raise it.

Governor SHAPP. I appreciate your sentiments on revenue sharing. Are we going to get it?

Mr. SARASIN. I think we are. I just hope it happens soon.

Governor SHAPP. I have about $137 million in my budget this year. It is going to have an awful hole in it if Congress doesn't come through with revenue sharing.

Mr. SARASIN. I think the failure of the Congress, Governor, is not to let you know in enough time what you can expect to plug into the budget beyond January 1977. There is no excuse, as far as I am concerned, for us not to do that now except we have a May 15 budgetary problem.

I think what we should do is go far enough ahead so that we can anticipate revenue sharing in the future more than 6 months in advance.

Governor SHAPP. I agree with that.

Mr. SARASIN. The great difficulty I have with this legislation, Governor, is in the area of public service employment. I think there are many things we can do in the area of short-term employment, in training because that is extremely important.

But when we get into the public service employment, especially at prevailing wages, we are competing with ourselves and just exacerbating the situation rather than helping it.

And when the testimony says so much weight under this bill will have to be placed on public service employment because the other areas can't pick it up or make that much of a change, I am left with a thought that there has got to be a better way and I would rather see some stimulus in the private sector.

Governor SHAPP. Whether it is public service employment or whether it is employment that is created by or actually employed by the public sector or private sector, I don't think it is the main issue.

I remember I came back from World War II and they had all these GI bill schools. Under the GI bill of rights, anybody who had been in the service could go to a school. I started my electronics business shortly thereafter, and if it wasn't for the GI bill, quite frankly, I would never have been able to start my business because 90 percent of my original employees were either men and women who had received their training in electronics previously during the war or under the GI bill of rights after the war at some of the trade schools.

I submit further that the two major growth industries of the fifties and early sixties namely the electronics and the air transport industries could not have taken place if it hadn't been for the Government training of millions of these people during and after the war.

So if you look at Government investment programs of this sort and what it does to help the private sector, if you had a public sector works program moving at this particular time, training people and giving them jobs, you would give a great stimulation to the private sector and find the private sector taking over a lot of this employment we now think we have to give only through the public sector.

Mr. Sarasin. Thank you, Governor, for your testimony.

Mr. Daniels. I recognize the gentleman from Pennsylvania, Mr. Gaydos.

Mr. Gaydos. I thank the Chairman for recognizing me.

Governor, I do want to compliment you. I understand you are going to make that report available to us for your forthright program for the school tax program. I think it is one of the cruelest problems we have had. Most of the people can't afford it. It affects them adversely.

It makes some kind of replacement for the now accepted school tax on property. I think it is the most admirable type of program. I hope we can help you. I know at this time the Federal Government provides, in all educational sectors, approximately 25 percent of the total education costs around the country.

We, on the Education and Labor Committee, are very familiar with those statistics and possibly, if we could double that to 50 or 75 percent we could offer a solution as you suggest should be done and should be addressed.

Governor Shapp. Under the program I am suggesting here actually it is an investment program because over the earning life of an educated person the money would come back in the form of a surcharge so that it would replenish the Treasury for paying for their educations.

Actually, it is not a cost item at all. It is just a time displacement for educating people. The educated people, who will then earn more money, will add a surcharge on their income tax.

Mr. Gaydos. Going back to the GI bill experience we had where we put the money in and they paid and that increased their tax payment.

Governor Shapp. Yes.

Mr. Gaydos. I am anxiously looking forward to reading that report of yours.

Governor, do you share my opinion that when we are talking about displaced funds and the dangers of siphoning off all types of resources, human and other resources from the private and public sector, is that a fear that is unjustified?

Governor Shapp. I really don't understand even the basis of that for this reason. I know if you start a public sector program it is going to mean you are going to be going to the money market.

If you have a deficit in our present type of budgeting system you go to the money market to get the money. Therefore, you would be competing with the private sector in getting the bonds sold and things of that sort, but I think that anything that is done to stimulate the economy by itself is going to overcome that particular thing.

I am talking about an investment program to rebuild a city or rebuild the railroads. The 300,000 jobs, for example, in this railroad situation I am talking about, they are not all out there on the railroad.

The steel companies will build the rail. They need employees. The electrical companies who are putting in the electrification along the track will be building that equipment.

So most of the money really is not going to be money that is spent just by the Government. It is going to be money spent by the Government in the private sector and will stimulate the private sector.

If you will recall, in my direct testimony I said our studies show for each dollar of investment that the public sector makes you stimulate about $2.40 worth of private sector investment. This is $3.40 total investment that stimulates the growth and economy about $8 to $10 a year.

So you are talking about parallel paths here with the private sector and public sector moving ahead together. I don't think the money market is going to be affected to that extent.

Mr. GAYDOS. We have had before the committee on numerous occasions in repetitious testimony to the effect that every time you make the approach you are talking about you are taking away capital that could be used in the private sector.

That seems to be one of the arguments of most of the people who have been testifying, the dedicated free enterprisers, which I think we all are but we take a different approach. I am glad to hear your explanation.

Governor, do you share my opinion that when we provide public jobs, for instance, in the State of Pennsylvania, and your political subdivisions that it amounts to maybe an enlargement of existing revenue sharing, and revenue sharing seems to have been enacted in fact, revenue sharing had its birth with the Republican administration.

Since they have accepted it in principle and now we come along and try to enlarge it, this is revenue sharing in kind, for want of a better descriptive word. I can't understand the position taken where you would accept revenue sharing when it deals with dollars and not accept it when it deals in services such as, providing employment for a man. It is the same thing. Do you share my opinion?

Governor SHAPP. I have never heard it expressed this way. I will have to give some thought to it. I don't see anything wrong with your logic.

Mr. GAYDOS. Coming from you, Governor, I consider it a compliment. You have presented a very concise, well-researched and well-documented presentation, Governor.

Prior to your appearance here, I commented and discussed your forthcoming appearance with the chairman and told him that when

Governor Shapp presents something it is going to be well documented, it is going to be quite logical and effective. You didn't make a liar out of me, so I thank you for your excellent testimony and thank you for being here.

I want to express my own particular personal feeling. I know I reflect the feeling of the committee generally, that it is always good to have you come back. Thank you.

Mr. DANIELS. It is my pleasure to recognize the author of this bill, the distinguished Congressman from California, Congressman Augustus Hawkins.

Mr. HAWKINS. Mr. Chairman, may I simply apologize for my absence on some urgent matters and also to express again publicly what I had expressed to the Governor privately, and that is the Governor has always been most cooperative with the various subcommittees, at least those of which I have been a member.

Whenever we were in his State, his administration really set a benchmark for the participation of State officials in cooperation with Federal officials, at least congressional committees.

I hope that the studies which have been referred to by Governor Shapp have been submitted for the record.

Mr. DANIELS. They have.

Mr. HAWKINS. They should be included because they are very suggestive of some very excellent programs which I think this committee, and other committees, should study.

May I simply tell the Governor that he has certainly lived up to all the expectations that we were assured by Mr. Gaydos would take place. His testimony is most valuable, not only because he happens to be a public official of one of our great States, but also because he is a seasoned businessman.

He has brought the viewpoint of the businessman before the subcommittee and we haven't had too many businessmen who have really felt constrained to offer their suggestions. I think for that added reason we have benefited by his testimony before us this morning.

It is certainly one of the best presentations I have heard during all of the hearings for the past 2 years that I have listened to on the subject of full employment. I commend him and certainly offer my own personal congratulations, which I think are shared by the other members of this committee.

Governor SHAPP. I certainly appreciate your remarks.

Mr. HAWKINS. I have nothing further. Thank you.

Mr. DANIELS. Governor, on behalf of the committee I want to express my thanks for your testimony and appearance here. It has been very informative. It has also been my pleasure to meet you for the first time in person.

Governor SHAPP. It is my pleasure to be here, and I certainly hope the information I presented will prove helpful in your deliberations.

Mr. DANIELS. Thank you again.

This concludes today's hearings. The committee will now adjourn and reconvene on Monday, April 12 at 10 a.m. in this room, 2175, of the Rayburn House Office Building.

[Whereupon, at 1:25 p.m. the subcommittee recessed, to reconvene at 10 a.m., Monday, April 12, 1976.]

FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

MONDAY, APRIL 12, 1976

House of Representatives,
Subcommittee on Manpower, Compensation, and
Health and Safety of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m. in room 2261, Rayburn House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Members present: Representatives Daniels, Hawkins, Meeds, Gaydos, and Sarasin.

Staff present: Dan Krivit, counsel; Saralee Schwartz, research assistant; and Nat Semple, minority counsel.

Mr. Daniels. The Subcommittee on Manpower, Compensation and Health and Safety will come to order. This morning, we continue with hearings on H.R. 50, the Full Employment and Balanced Growth Act of 1976.

Our first witness today is the Hon. Paul O'Dwyer, president of the City Council of New York City.

We wish to extend to you, Mr. President, a warm welcome to this hearing and look forward with pleasure to your comments.

STATEMENT OF PAUL O'DWYER, PRESIDENT, CITY COUNCIL OF NEY YORK CITY

Mr. O'Dwyer. Thank you, Mr. Chairman.

First, let me say I appreciate the opportunity, invitation and opportunity to be here to talk about a subject which is of tremendous moment to everyone throughout the United States. There is not a subject as devastating as unemployment in the area that I live, and devastating in every other section of the country as well.

Mr. Chairman, I am Paul O'Dwyer, and I am here to testify both as president of the New York City Council and as a representative of the Full-Employment Action Council, whose chairpersons are Mrs. Martin Luther King and Murray Finley, president of the Amalgamated Clothing Workers Union.

As an elected official of the City of New York, I represent more than 8 million people. Of these, 10.7 percent of the labor force are unemployed, at least, that is what they tell us.

As the spokesman here for the Full-Employment Action Council, I represent many, many more. I believe the real number of unemployed in our city is far higher than that supplied to us by our national statistical bureaus. In any event, our city's unemployment figure of 10.7 percent is far above the national figure of 7.6 percent.

I have supplied those grim statistics because I want them to be considered in true perspective—a human perspective.

These statistics represent real, live people, each with a serious, live problem. The people of this Nation have the right to work. They support a system of Government established to protect and uphold their rights. I am talking about the real meaning of the right to life, liberty and the pursuit of happiness—the fundamental tenets of this democracy, which established the mutuality between our system of Government and the people it is meant to serve.

The cost of antipoverty programs directly related to joblessness is a staggering $60 billion a year, while the estimated cost of creating jobs for all those who can work is nearly a third less.

We have before us a bill introduced by Senator Hubert H. Humphrey, the distinguished Senator from Minnesota, and Representative Augustus F. Hawkins, the distinguished Congressman from California, called the Full Employment and Balanced Growth Act of 1976.

This is a bill which I wholeheartedly support and acclaim as an historic piece of legislation in its time.

The Full Employment Bill of 1976 for the first time spells out the responsibility of the Government to guarantee the right of all Americans to work. This is a significant piece of legislation and one that did not appear in the Employment Act of 1946, which this bill proposed to amend.

In 1946, Congress passed and President Truman signed the Employment Act of 1946. President Truman said:

> Full employment means more than jobs. It values ends as well as means; it values leisure as well as work; it values self-development as well as dedication to a common purpose; it values individual as well as group cooperation. Full employment means maximum opportunity under the American system of responsible freedom.

The bill before us represents the first step towards providing all Americans with those rights, privileges and benefits described in our earliest documents forged for us by our political forebears.

The pursuit of happiness in 1976 is a meaningless phrase to a citizen condemned by circumstances beyond his control to live a life of idleness. What kind of a life can it be if a man or woman must live on relief while their children are ill-fed, ill-housed and ill-clad?

The meaning of liberty is obscured in the mind of a man or woman whose unemployment benefits have run out, whose savings are used up and who is now bereft of even medical coverage.

There is much talk about meeting the challenge of the Soviet Union with a bloated and wasteful defense budget. I believe that the challenge we must first meet is in the development of our economy so that Americans can equitably share in nature's gift to us and the fruits of our industry. A United States with a sound economy, with full employment and decent living conditions for all its citizens is a strong country which would have nothing to fear from any quarter of the globe.

When the national will was mobilized 3 decades ago, we were able to split the atom. A decade ago we successfully mobilized our skills and resources to place men on the Moon. If we now take the lead in mobilizing the national will, can we not provide full employment?

Full employment is the cornerstone of the drive for social justice. Through full employment we can end the welfare cycle and provide people with the means to achieve proper nutrition and decent housing; and to pull some out of their insecurity and fear and others out of their despair.

It does little good for us to rail at those who condemn as indolent if we have no jobs with which to provide them.

Some radio and television commentators have talked about the decline in the United States. The passage and implementation of appropriate legislation would give the lie to those crepe hangers. A United States which shall have achieved full employment with meaningful work and decent wages for all of its citizens would be a society of which to be proud; one which is going forward, not declining.

Our present economic policy mistakenly correlates inflation with unemployment—calling inflation the inevitable partner of full employment and insisting that we cannot have stable prices without some unemployment, too.

Recent history does not bear this out. In 1953, when we had our lowest unemployment rate, we also had our lowest inflation rate—less than 1 percent.

In 1968, when economists put the inflation rate at 4.2 percent, economic advisers prescribed higher unemployment as a cure-all. The result was double-digit inflation.

And in 1974, when we had an inflation rate of 12.2 percent, we also had rising unemployment, reaching 7.2 percent by the end of the year.

The real causes of inflation in 1974 and 1975 were: one, the skyrocketing prices of oil, fixed by our overseas and domestic suppliers, which, in turn, raised the cost of gasoline, home heating oil, synthetics, plastics and chemical fertilizers—all of whom are derived from petroleum.

Two, the worldwide increase in demand for American farm products, which drove up our food prices.

Three, the action in 1972 of the Federal Reserve Board in loosening up the money supply.

Four, the inflexible pricing decisions made by big business in industries where competition is more apparent than real, which kept prices up even when demand declined.

And full employment must be considered with other desired economic goals, including programs for energy, transportation, environmental improvement, health care, education, housing, hospitals, and cultural centers. Full employment would fulfill the needs of other economic planning.

Now the Congress has stepped forward with a program to provide the economy with the stimulus necessary to move the country toward full employment and I congratulate Senator Humphrey and Congressman Hawkins for this progressive move.

The Federal Reserve System should be required to justify to the President and the Congress the manner in which its policies concerning interest rates, the money supply and availability of credit that will help meet the targets and objectives that are established.

The Full Employment and Balanced Growth Act of 1976 is a general economic policy bill. It would establish the procedures and institutional structure which would require the President, the Congress and the Federal Reserve to develop and act on the national goals and priorities for full employment and balanced economic growth.

The major focus of the bill is on the creation and maintenance of job opportunities in the normal operations of the economy.

If it passes it will mean that the Federal Government should offer substantial help to private enterprise to turn dole recipients into productive workers and act as an employer of last resort.

The Full Employment and Balanced Growth Act of 1976 seeks to utilize the government in the fulfillment of the promise for full employment that it made 30 years ago, in the 1946 Employment Act. The bill's central thrust is the clear, uncompromising right of every American to obtain employment. It commits the Federal Government to pursue every fiscal, monetary and other measure needed to insure that such job opportunities are provided. We heartily endorse it and pray for its enactment.

Mr. DANIELS. Mr. O'Dwyer, as chairman of the subcommittee, I wish to express my thanks to you for a very fine statement. The members of this subcommittee would like to ask a few questions. I have prepared some, and have furnished you with a copy of the questions I propose to ask.

As City Council president of one of our country's largest and most financially burdened urban areas, do you feel that H.R. 50 would provide constructive youth employment policies and, if enacted, could help your city meet its current unemployment needs?

Mr. O'DWYER. What we have, which is basic to our problems, is the high degree of unemployment. We have over 1 million people on the relief rolls, allowing for a number of those to be the very old and the very young, we find that more recently those whose unemployment has run out are onto our relief rolls as well.

Obviously, anything that would create employment would greatly reduce that; even though our particular share of the total burden in the city of New York is 25 percent, when you have that number of people unemployed and on relief, obviously it is a staggering blow.

I would say that our problem is our tax base which has been greatly reduced by the flight from the inner city to the suburbs, also the high degree of unemployment in the inner city. If one were cured, obviously much of our financial problem would be solved.

Mr. DANIELS. You state on page 1 of your statement that the city of New York is suffering from 10.7 percent unemployment, and you just mentioned that you have approximately 1 million people on relief. Do you think the policy envisioned in section 205 of this bill dealing with youth employment policies will effectively deal with the problems you are experiencing in New York City?

Mr. O'Dwyer. Mr. Chairman, I must tell you that that 10.7 percent is what we get from the statisticians. In our area, we have as high as 50 percent unemployment among young people. Obviously there is a necessity, when they come teaming out of the schools, private industry cannot absorb them. There has to be some action taken by the Government to fill the gap for at least that portion of the time. That is one of the things I like about the bill.

It is broad enough to envisage any kind of relationship between industry and government to help to cut down the unemployment rate and do the many things that spring from that. I do not believe we have a 10.7 percent unemployment in the city of New York. I think we have a 20 percent unemployment. They do not count those who have been off unemployment. They do not count the young people who have come out of the schools.

There is a whole group of other people that have never been on payrolls. We have to face up to that fact. They are now no longer on any other payroll, registered or otherwise.

Mr. Daniels. The senior citizens who work part time, those who have become disenchanted in reporting to the Unemployment Insurance Office, falling out of the job market.

Mr. O'Dwyer. We have that, and another problem: Illegal aliens, all of these things.

Mr. Daniels. From where you sit, in the official government of the city of New York, as Council president, what do you think are some of the greatest barriers to reducing unemployment?

Mr. O'Dwyer. In the first place, the inflationary spiral that we have gone through is one thing that is probably more reason for it than any other. The fact that we have no real job opportunities, no creative job opportunities we can foresee, we have no Government assistance in marrying the private and public sector together and the creation of new industries, the search for areas where consumer goods are needed—there are many areas where consumer goods are needed.

No way of figuring out where that takes place, and helping to create industry in these areas. These are some of the things that bother us.

Mr. Daniels. Therefore, you believe that the provisions in this bill, providing for a study of the unemployment situation, providing for greater production studies made in this area, will be helpful.

Mr. O'Dwyer. It will be extremely helpful to us.

Mr. Daniels. Mr. O'Dwyer, during the hearings on this bill before this subcommittee, we heard some witnesses say we should not establish specific numerical goals for unemployment such as the 3-percent unemployment rate envisioned in this bill.

Do you agree with those views?

Mr. O'Dwyer. Mr. Chairman, it all depends on whose ox is being gored. It all depends on whether or not you are the one talking about it, or one of the 3 percent who is unemployed. Three percent means over 2 million Americans who do not have jobs. We just have to take up the case of any one of those. Are they not entitled to the protection of the law and protection of our economy? If the economy lags in some areas, is it not necessary that a bill like this would be important to try to bring about some incentives to industry, the relationship between government and industry is absolutely necessary.

In the natural flow of things, we would have a certain amount of unemployment because of seasonal work. I am not talking about that, that would happen. To suggest that we condemn anybody to a 3-percent figure of unemployment is totally out of context of the basic documents of our country.

Mr. DANIELS. Do you believe it can be achieved within a period of 4 years?

Mr. O'DWYER. I would not be so presumptuous as to hazard a guess. That would take more information, more background, than I possess.

Let us assume that we got moving in that direction soon. The sooner we get onto it, the sooner we will be able to accomplish it. It is something that can be accomplished; the time situation is something else again.

Mr. DANIELS. At a hearing held by this subcommittee last week, Federal Reserve Board Governor Charles Partee felt that if Federal public employment programs paid a wage under the Davis-Bacon Act or Federal minimum wage, or State or local minimum wages, or the prevailing wage in State or local government, people working in the private sector would be enticed to leaving their positions in the private sector to search for higher paying jobs, public jobs.

Do you have any thoughts on this point?

Mr. O'DWYER. I do not follow them. Frankly, I do not see that as a logical consequence. People who are in a certain area of the country who are involved in having fair wage, are not likely to start moving someplace else where jobs are in the public sector. I doubt that that would happen.

Let us assume that you would have some mobility. I do not see that as being a great barrier to what is proposed or suggested.

Frankly, on the basis of our experience in New York from the Federal Reserve System, I am inclined to take issue with a certain amount of doubt whatever information, whatever pronouncements come from them. We have had a situation where the head of the Federal Reserve System has said at one time, when we were in our deepest trouble, that he would not recommend our paper to anybody else. You know, I thought, that that was a rather outrageous thing to come from a head of a Government agency as important as the head of the Federal Reserve System.

That, in effect, caused us as much difficulty as any single factor. Let me say, when they give us some ideas of their concept of what would happen in the labor and economic world, I have to accept it with a grain of salt.

Mr. DANIELS. Mr. O'Dwyer, yesterday I had occasion to listen to a TV program, Face the Nation. The guest was a well-known and prominent economist, Walter Heller, who publicly expressed his support for this bill, and he said, of course, it should be tightened up.

I wonder, do you approve of the bill in its present form, or do you have any suggestions or recommendations to this Committee?

Mr. O'Dwyer. I am quite certain, given the membership of this committee, that no bill that ever goes in will come out the same as it went in. I am sure that it will undergo a great deal of study. There will be a lot of people who will make contributions toward suggesting changes in connection with it.

I have not gone that far along the line to be able to say that there should be an improvement in this area or that area. What I say is that the concept is right, the tightening-up process, the changing process, as long as they do not change the general intent. I lived through one depression. I know what happened at a time when it was necessary for us. when we adopted the laissez-faire policy, we went down the drain. We went down so far that the farmers—many of you do not remember; I do—when the farmers had shotguns at the banks when they were foreclosing on their farms. They were not just rude people unrelated to the American past. These were people who were steeped into the antiquity of this country.

I sincerely hope that that situation in any other level, even in urban New York, rural Nebraska, will never happen again.

This is the kind of safety measure that will prevent it from happening, because it stands to reason that the way we are going now, we are headed for disaster. At what point it comes, Chairman Daniels, I do not know; nobody can tell. That is the direction in which we are going.

At what point do all of our resources, the private resources of the American citizen, give out? That is the point of desperation; that is the point where the farmers march again. I would sincerely hope, while we still have time, that this kind of bill be given serious consideration.

As I said before, I think of it as a very historic document. It means it is pointing the way for us. Situations have changed between the 1930's and now. The remedies that we had at that time are not the remedies of today. Things have changed, our attitude, our viewpoint, our outlook has changed immeasurably. But this has the significant ingredient of recognizing the problem, moving in the direction of Federal intervention to give us hope that we may be able to survive if something like this is happening. By the same token, if it does not happen, I do not think anybody needs to be a fortune teller, a soothsayer, to say that we are in tremendous trouble in this country.

What has happened in my city is symbolic. It has happened in every other town. It happened in every village and town that had a school bond to sell. Everyone of them across the country are paying higher rates of interest at the moment, some 10 percent, 11 percent—the soundest investment in the whole, wide world, paid for by the people you know down the block, in the neighborhood.

We are not really talking about large cities, we are talking about rural communities as well. That is merely symbolic of the disease.

Unless we recognize it and move forward in something like this, we are in for serious trouble. It does not make any difference which Administration is in Washington; that is not going to change the situation unless we have the economy and Government work together to make certain we are able to settle the human problems of the people.

Mr. Daniels. Mr. O'Dwyer, on the behalf of the committee, I would like to thank you for your appearance and testimony.

I now recognize the gentleman from Connecticut, Mr. Sarasin. Do you have any questions?

Mr. Sarasin. Thank you, Mr. Chairman.

Mr. O'Dwyer. I too would like to thank you for your testimony this morning. In one part of your statement, you mentioned, the focus of the bill is on the creation and maintenance of job opportunities in the normal operations of the economy. It says if it passes it means the Federal Government should offer substantial help to private enterprise.

What kind of help do you envision?

Mr. O'Dwyer. Let me give you a typical example of what I meant from the Federal Government on what we are doing in New York City at the moment.

The Commodore Hotel is a place right in the center of town. It is partly owned by the Penn Central. They are in bankruptcy, so we are owed about $6 million in taxes we cannot get. We are in a bind in this respect, so we have before myself and other members of the Board of Estimates of the city of New York—I also serve as a member of the Board of Estimates—the Board of Estimates passes on problems of that kind.

The proposal we have is for a private builder to come in, rebuild the Commodore Hotel at an investment of $100 million to $105 million. We give him incentives insofar as tax abatement is concerned, oh, for probably the next 50 years, starting out with a small amount of taxes, then bringing him up to what he normally would pay for the increased value of the property. That is one kind of incentive. Tax abatement incentive would be one.

The other thing would be using the facilities of Government to find out where it is that a special product is in short supply. I do not think there is any American who has not gone to the store and asked for some merchandise that they need which is not there.

Why would that be in an economy? That is what I am talking about: a variety of incentives that took place before that I think we can utilize again.

Mr. Sarasin. You did mention that you thought the inflationary spiral was the greatest cause of unemployment, as I understood you.

Mr. O'Dwyer. Yes.

Mr. Sarasin. You pointed out some of the reasons for prior inflationary jumps in our recent history. There is, I think, a significant unanswered question, that is as to the cost of this bill and the effect that it will have on inflation.

I wonder if you have any comments with regard to the cost of the bill?

Mr. O'Dwyer. No, I do not, but that has not been spelled out in the bill itself. I am sure that considerable inquiry would be in regard to that. It depends on what school of thought one belongs to.

One thing we have to reject is that unemployment cuts down inflation, because history—it sounded logical, truthfully when we first said it, you say if you increase unemployment, then you do not have the money to spend. If you do not have the money to spend, then, of course, inflation will be reduced by that amount.

It is simply—that was too simple an answer. It obviously did not work. We had a higher rate of unemployment, higher rate of inflation as time went on. The spending is something that is peculiar within the Congress to make that determination, and I would suggest that there is nothing—well, one figure that I have heard was that the cost of this bill to put people to work would be one-third less than that of maintaining people idle.

I have not been able to check out that figure. I do not know whether or not it is true, but it has come from fairly reliable economists. I assume there is something to it.

If that be so, of course, the cost of this bill would not, in any way, be regarded as inflationary. At the same time, it would mean that people would be employed.

If we are to pursue that, the logic of that, that if we spend money it will cause more inflation, then we have to come to the other conclusion that people working cause inflation, therefore people not working would defeat inflation.

We are back into the same rut that we were into before, that has caused us to be in the trouble where we are now.

Mr. **Sarasin**. The economists who have testified before us have all expressed great concern about the prevailing wage aspects of this bill, as Chairman Daniels mentioned a moment ago.

As I understand the testimony, it points to the 3 percent unemployment rate for every group of individuals over 16 years of age. You are talking about an awful lot of people, at tremendous expense, but as you get to the public employment part of this bill—the employer of last resort section which you must get to quickly because the other sections of the bill simply are not going to pick up that kind of slack—you are then creating an extremely tight labor market, competing very heavily with the private sector and with Government itself, which will lead to wage inflation, which will lead to price inflation.

Every one of the people who testified said this is not the way to go. If we are talking about an employer of last resort, we should talk about some program with a disincentive to remain employed in that aspect of the program, to get people off and out of that aspect of the program.

I wonder if you might have any further comment on that?

Mr. **O'Dwyer**. Congressman Sarasin, I do not envision things happening that fast. It never did before; it is not likely to do it now.

I do not think tomorrow morning that the Government will hire everybody that is unemployed. Even if they should wish to, they could not do it physically or mechanically.

Mr. **Sarasin**. The bill has a deadline of 4 years to reach that 3 percent. I have extreme reservations about the wisdom of this bill. Certainly no one is against the concept of full employment, to get as many people back to work as possible, and I think there are many short term programs we can get involved in to do that.

One of the other comments that has been made is, as you make available a relatively high-paying job, you are going to be drawing people into the unemployed ranks who were not there before, simply because the Government is going to provide you a job that pays as well as any other job in the community.

You are drawing from this 9 to 12 million group of people who might work, but are not even considered unemployed and they do not consider themselves unemployed.

Mr. O'DWYER. With any other approach, you would run into difficulty. Trade unionism is a fact of life in practically all of the country. If you are going to have depressed wages over here in Government service it would mean that ultimately there would be competition in some areas with private industry.

If you are not having the same wage rate with respect to both, it would seem to me that you are undermining private industry. That is at least what it seems on the surface of it now. I cannot envisage it as it would finally work out.

As I look down the road, that is what I think would be likely to happen. It would cause a lot of unrest, it seems to me, if you did not have that provision.

Mr. SARASIN. If you are paying the prevailing wages you would find yourself in direct competition with private industry and having the taxpayers try and pick up this tremendous slack.

Really, who is going to be left to pay the taxes?

Mr. O'DWYER. Obviously, the purpose of this bill is not to create trouble for private industry that is healthy, because that would certainly be defeating. The purpose of it is to create opportunities which do not injure any private industry now in operation in making a profit and paying taxes.

I would think care would be taken with respect to that.

Mr. SARASIN. We have had testimony by proponents of the bill who say that Government should get into the business of doing a lot of the construction that takes place in this country. Obviously, that would be in competition with the private sector.

Mr. O'DWYER. I would not envisage that. The Government itself cannot go out and hire the foreman, it cannot go out and hire the superintendent, the safety man on the job. It cannot hire the steel men. They would not know how to do it, frankly. They would have to hire contractors for that, they would have to get contractors for that, contractors who are capable of doing it properly.

If I see anything down the road in this bill, I would envisage that they would find areas where there would be a necessity for construction, where there is a need for it.

I think in certain areas of the country, there are many schools that need to be constructed. I do not envisage public works in going out and building the school. I assume that they would contract that out and finance it and do something about it to get it moving.

There may be bridges to be built over rivers, a lot of things. Railroads are in bad shape and bad need of support and help. I think it is in these areas where the economy could be helped very much by our efforts.

I see it working out to great success.

Mr. SARASIN. In your view, you would assume, once these needs are identified, the railroads or bridges or whatever, that the private sector contractors and their employees would be hired to do this job.

Mr. O'DWYER. They would be hired to do the job if that were the best way to do it. I would say that is No. 1.

If there is an area, finally, where you still have a number of people left over, then I would say the Government as the last resort.

I think that is the merit of this bill, as I have read it. You do not get to the government until such time as you have exhausted every means by which you can stir up the private economy.

Mr. SARASIN. Governor Shapp of Pennsylvania testified before us last week and talked about the need to rebuild the railroads and all of the other things you are talking about.

His view, as I understood it, was for the government in that position, having the people work for the government to do these jobs.

Mr. O'DWYER. Frankly, I think that might be rather wasteful and I would not agree to that. I think it should be done through private industry because the skills are not something you can acquire overnight. I do not think possibly you can get any government agency to do better than to make the arrangements on what the necessity is, also pass judgment on what happens to the railroad when they are finished with it, whether or not it serves the people, whether or not it serves the community, not just merely a handout to the railroads either. I would not be in favor of that.

Say, for instance, a railroad that should not be discontinued because it serves a whole group of manufacturers. That is what happened to us in the 13 Eastern States when New York Central and Pennsylvania went together. We knocked out more business with that merger. I happened to have spoken against it, representing one of the trade unions at the time for the Interstate Commerce Commission. We did more harm to the American economy, particularly in the 13 Eastern States, by permitting that merger, than anything that has happened to us through the history of the Nation, through the history of the Republic.

Mr. SARASIN. I appreciate your comments. I agree with you.

You also pointed out, as you see the bill, the employer of last resort section is really the last resort part of the bill. We have had some testimony by economists that you get there very quickly as the other mechanisms in the bill really do not satisfy it or get you to that 3 percent goal.

We had testimony from an economist at MIT the other day. If we had loosened up the monetary policy, which appears to be the first direction in this bill, we may have gotten 5.8 percent unemployment. Instead of having the present 7.5 percent, we might have 5.8 percent.

He thought we should have loosened up the monetary policy. He also felt that we would be as concerned about 5.8 percent as 7.5 percent and we would be discussing this kind of bill. All of the other programs in the bill, the make work, apparently countercyclical programs could only accomplish another .5 percent unemployed. You are still left from 5.8 percent to 5.3 percent, 2.3 percent that must be picked up by the employer of last resort, that being the Federal Government and, of course, the taxpayers to the Federal Government.

He felt that was a tremendous burden.

Mr. O'DWYER. I do not really know whether he really knows that or not. So far, the economists I have heard, they have not been right often enough so that I can accept their word.

Mr. SARASIN. I would accept that it is an imprecise science. It is this man's field of special interest.

Mr. O'DWYER. I would go so far as to say it is not a science at all, based on their predictions.

Mr. SARASIN. One of the things we can do is look at what we have done with Government programs. We institute these programs in the job sector, pointing out that for every dollar spent we can save so much money in welfare and so on.

That is not what happens, in our own experience. The job programs passed by the Congress have not taken people from the unemployment rolls. They found they were taking people from State and local government who were not unemployed and moving them from one payroll to another. The effect is something less than a 25 percent impact on all current welfare recipients.

Mr. O'DWYER. There is a lot to what you say. There has been a lot of waste.

As president of the city council and member of the board of estimates, I have gone over some of these things; we have to pass on them. I have sent people out to check them out to see that we do not pay unless they actually earned it.

What happened was, we went halfway through and stopped in the middle. The poverty program was meant for one thing; by the time it got part way, we changed our whole approach and decided to do it in half measures. You cannot do anything like this in half measures. If this bill is reduced to a point where its objectives are interefered with, I think that it would go down the drain like every other program which you really do not make up your mind on what your objectives were. Then you proceed to do it.

We withdrew from half the poverty programs. We found something wrong with the managers, so we condemned the programs instead of taking the managers and throwing them out and continuing with the program. The programs have for their purpose, particularly these programs we are talking about, been a source of genious in the American public that we have not tapped. That is, when we are able to utilize the best brains in this country and bring it to a certain point, it all came to a stop because we did not give it an opportunity to rise up.

Actually, with all of its faults, it did produce a number of people and brought them into public and private sectors that otherwise might have been condemned to poverty for the rest of their days. The statistics are replete with that.

It had many shortcomings and faults, it certainly must be admitted. I would hope that we would really give our minds to this.

The point that I think is the thrust of my talk in connection with this is that we utilize the necessity for eliminating unemploymen, number one. That is the goal.

If we have the talents in the United States, being able to split the atom, do the variety of things we did when we wanted to do it, if you had the same kind of determination governmentwise, and all of these things were done by government, if that were to take place and we were to use the same kind of determination and energy, we can wipe out unemployment. There is certainly nothing about it that is so impossible.

These are ways of doing it. By all means, if there is an amendment in connection with it to bring that objective about, that is fine. If it is going to injure a segment of industry, certainly we ought to be careful about that, because that does not help the situation.

It seems to me that is why I hesitated when the Chairman asked me if I had any suggestions with respect to how to improve it. That is a tall order. I am not competent or want to move in that direction. Certainly somebody is there that is able to do it, the determination and minds the Congress in connection with it. Besides that, we have come to the point where we can no longer really permit things to happen while Government, your Government, my Government, the government of the city of New York, the government of a local village, figures it is none of their business. It is their business. The welfare of the people is our business and we have to give whatever attention is necessary in order for us to accomplish it.

Mr. SARASIN. I want to thank you very much for your statement, Mr. O'Dwyer.

Thank you, Mr. Chairman.

Mr. DANIELS. I recognize the gentleman from Washington, Congressman Meeds. Do you have any questions?

Mr. MEEDS. Thank you very much, Mr. Chairman.

I appreciate your testimony, Mr. O'Dwyer, and was particularly struck with that testimony on page 4 which says, "Calling inflation the inevitable partner of full employment and insisting that we cannot have stable prices without some unemployment, too"—then you go on, which indicates to me that you made a closer study of economic conditions than simply reading the front pages of the paper or editorial opinions where we were continually told that the major cause of inflation or upward trending of prices would be full employment, or to put that in the reverse, full employment would inevitably result in inflation.

I agree with you that those two are not necessarily self-induced and I would ask you in your opinion, if there were a number of other things that were much more responsible for the inflation that we suffered, particularly in the 1974–75 and present inflation period, more so than full employment?

Mr. O'DWYER. Congressman Meeds, I got taken in by that inducement, lower inflation, if you have unemployment, I thought maybe there is something to that.

Mr. MEEDS. I think we all did.

Mr. O'DWYER. When we set our national goals at 6 percent unemployment, it was a horrible thing for a country to set a goal of unemployment. That is to say, you take your own citizens and condemn them to unemployment. If that is what is necessary in the minds of the great ones to destroy inflation, so the people accepted it, then found out that it was prophecy without merit.

Mr. MEEDS. Indeed, just the opposite occurred, did it not?

Mr. O'DWYER. Precisely.

Mr. MEEDS. The increase in unemployment, inflation also increased.

Mr. O'DWYER. Whether or not there is a relationship or not, certainly the relationship is not between unemployment and deflation, that is for certain. Whether or not the opposite is true is another matter.

You asked about the other reasons for inflation. Congressman, 1 day, 10, 12, 14 leaders in the oil industry sat around a table and they told us that we did not have enough oil in the country and you and I waited along the line until we perhaps got 2 gallons of gas at this place and that place, all phony—fraud really, no question about it at all. In the course of another month—actually, when that was happening, out in New York Bay the tankers were lying out there waiting for the prices to go up.

We were told it was the Arabs. There are Arabs everywhere. So we got to the point—now, what has that done to us in New York City? It has taken, where we have large, multiple dwellings where a gallon of fuel oil cost 20 cents, now it costs 60 cents. It means many of these buildings are abandoned because the real estate people cannot catch up fast enough without gouging the tenants in order to get the money.

That is what has caused a great deal of it. Nothing to do, certainly nothing to do, with employment.

Mr. MEEDS. You would believe that the decisions made by big business, as you put it, which indicated that they were competitive decisions in some instances were not very competitive decisions and that this, at least, was as great a factor in regard to unemployment as full employment.

Mr. O'DWYER. They were all joined together, in a sense. One created and raised havoc with the other. People who had to meet these additional costs because of the increasing oil costs had to lay off—it caused unemployment.

What caused the inflation? Certainly there are many causes for it. The one that really brought it into prominence was the fact here we were, a nation of 210 million with the greatest universities, the greatest health facilities, the greatest hospitals, the greatest everything. We could not stop some 10 or 15 people from ruining our country.

That is a sad commentary, but it is a fact, a fact of life.

Mr. MEEDS. Would you agree with me that particularly during periods of time in which decisions are made which subject goods and services in this country to less than a fully competitive decision-making, such as the oil situation that you just recited, that if you add to that unemployment, which inevitably decreases the supply, that you are adding fuel to inflation rather than reducing it?

Mr. O'DWYER. Indeed, it is true. I agree.

Mr. MEEDS. Thank you, Mr. O'Dwyer.

Thank you, Mr. Chairman.

Mr. DANIELS. I recognize the gentleman from California, the coauthor of this bill, Congressman Hawkins.

Mr. HAWKINS. Thank you, Mr. Chairman.

Mr. O'Dwyer, I wish to commend you on your very excellent statement, but I think your comments made verbally, apart from your statement, have been more significant than the statement iself.

First, I would like to ask you a question with respect to the difficulties that New York City, among other cities, has experienced. Those who have been mismanaging the economy since 1969 in creating four separate recessions, the last one being the worst one that we have had since the Great Depression, have accused New York of being in fiscal difficulties because of mismanagement.

Would you care to comment on whether New York's difficulties are due basically or substantially to mismanagement, and if not, what would you say has been the chief causes of your difficulties?

Mr. O'DWYER. Some of the causes were because we thought we were the Federal Government. We thought that when people were impoverished and people were down and out that we had some obligations. We did not have the control of the economy to be able to fix that up.

When New York was founded in 1625, the first Dutch ship was the *Comforter of the Sick* the very first ship that came. Based on the traditions that we inherited from our very earliest founders, we have always had a feeling that where inequities were concerned, we would try to do the best we can.

We got a lot of Federal funds for that. One day some of the Federal funds were withdrawn and people got accustomed to going to city hall to demand their rights because we were processing the various agencies that were bringing about some relief.

We had an attractive city. We are inclined to be boastful, and we had a city which people came from all over the country, not only all over the country, all over the world, and it was very difficult for people to come from a rural community and come into our city. At the same time, especially if you have a national policy of unemployment, you immediately cause trouble for that particular city.

We have to cut it out, we have to change, and we are changing. We had to eliminate some of the social programs that we felt was a part of our work. With the State withdrawing its share, with the Federal Government withdrawing its share, we found we simply could not deal with it any longer.

By doing that, of course, we inevitably have to witness great distress and great difficulties, lack of opportunity—let me give you a typical example.

We attempt to provide an education, because that was a part of our tradition. Given an opportunity, the taxpayers paid for education for people who got educated, went around the country and helped other communities. Of our graduates, only 10 percent were absorbed locally. We did not simply say, we have to get a guarantee from you that you will supply the State of New York with the services that we paid for. They went everywhere.

Our museums were available to people. As a matter of fact, people from all over the country came to see them.

We try to maintain them, and most of them are maintained, by private grants in the private sector and endowments. We have to take care of certain portions. We were in that kind of mood.

Now we have, of course, our educational facilities. We closed down 2-day colleges from the poor section of the town. We do not have total control. We do not have any control over the policies of the board of higher education, by the way, which is an internal problem we have, which I certainly hope we will be able to correct and have them elected one of these days. Therefore, they can make whatever policy we want.

We have that kind of a problem.

We have a problem with education because of the fact that we have a system of keeping the educational organizations out of politics. It is an independent body. Our only function is to give them money. That was supposed to counteract political interference in the schools.

Whatever one may say about the evils of political interference in schools, the other part of it, you can create an authority that uses its own judgment and is not responsible to the people for its conduct is of course immeasurably worse.

So these are some of the problems that we have. Some of the problems came from the fact that we found that our credit was exceedingly good. We were able to take, instead of having bond issues for 10 or 20 years, we found that we could avoid it by having short-term borrowing.

That short-term borrowing got to the point—we never had any problem getting money. All we had to do was call up the banking institutions and the check was delivered to us in the afternoon.

One day the banking institutions said, all of your short-term borrowing, we want it tomorrow. And it would be, Congressman, like someone in your constituency had a $25,000 mortgage on his house for 15 years but the bank said we have to have it all next year. That is precisely the situation with us.

We were lax. We extended ourselves in the city of New York because we had a tradition. The fact that we cannot live with that tradition anymore is a reality that we very reluctantly have accepted. It is for that reason that we are now suffering as we are. To suggest that it was because of mismanagement—I can tell you, our management was as good as General Motors—I am not sure how good that was. I will take the whole private industry and say we matched them, one for one, our city, with respect to these other people in private industry.

Was our management good? We got into difficulty. Take a look at the bankruptcy courts and find out. The largest institutions in the country have had some difficulty. The others, I read in the paper the other day in the financial column that the 10 largest banks are in difficulty. We are in good company.

Mr. HAWKINS. Are you saying that your difficulties are not unique, that they are in some way related to national problems that have arisen as a result of certain economic policies?

Mr. O'Dwyer. Congressman, I was a lawyer in the civil rights field and it was my obligation to go to Mississippi to get the right to vote for people. I did it in the courts and in front of the polling booths and on the platform, and I found that riding North from Jackson into Memphis through the delta that there was a whole economy that was built on cottonpickers and one day, when myself and the people, because of their own insistence in the right of franchise got the vote, those people who never voted previously became a very important force, particularly in the delta. That was 40 percent black; in some areas, 70 percent black.

Immediately what they did was layoff the cottonpickers. They put in some cattle. In one ranch I was aware of, they had 300 people laid off. They could use about five people. Some of the land lay fallow and they got a very substantial amount of money. What happened to the 300 people? Because of the fact that you did not have a national policy with respect to the fact that relief was not national, but local, the people who normally would have been kept at home, they had no particular wish to go to Detroit, Los Angeles or New York or Boston, if they had been given a fair opportunity to make a living where they were, they would have done it.

Because of the fact that we failed to have a national policy with respect to it, we were the recipients of this mismanagement, this national mismanagement. That is how we have come to be in some of the difficulties we are in.

There is no way that we could say to somebody that came in from Mississippi under those circumstances, I am the board of estimates of the city of New York and decree that you starve on my doorstep. It never happened before; it is not going to happen, no matter how we work it out.

Mr. Hawkins. According to the Washington Post of April 12, in 1975 the cost of welfare declined 21.4 percent. According to this article, the Department of HEW withheld the figures because they were politically insensitive.

Continuing, that article says, the general assistance programs run by State and local governments without Federal matching funds increased 27.8 percent, and that the largest increases in the spending figures were 34.8 percent to $43.9 million for payments to families headed by jobless fathers.

Unemployment last year, of course, we know averaged 8.5 percent.

If that is true, and I would assume that the report from HEW would certainly support that story, then does it not mean that not only New York, but other cities and States as well have been harmed by the economic situation, throughout the country; consequently, the Federal Government has some sort of obligation in terms of countercyclical aid to come to the rescue of those governments they injure, if their approach to the problem of inflation is to create unemployment under such conditions as that article indicates.

Mr. O'Dwyer. Sir, I can tell you, when we got into Appalachia, the Appalachian program that took in 13 counties in New York State, by the way, we were pinpointing a certain situation in American life that needed an economic approach by the Government.

Now, that situation with respect to Appalachia now applies to every other county and every other place throughout the country.

What your bill is doing is taking the same principle and expanding it to places that are in the same kind of need.

Mr. Hawkins. With respect to wage rates that have been brought into the discussion this morning, actually the individual, I think, who did the most to add to the confusion was the economist from MIT who has been referred to.

Mr. O'Dwyer. They will do it every time, Congressman.

Mr. Hawkins. Among his suggestions about a national goal of 5.8 percent, he indicated that wages were among the main pressures that would prevent full employment from being accomplished.

Do you believe that full employment, as we defined it in H.R 50, can be achieved by simply reducing wage rates, and destroying the wage structures? Let us say as Arthur Burns did, as a member of the Federal Reserve Board, who was quoted by one of the other witnesses we can simply cut wages in half and double the number of persons, and in that way, we can double the number of persons who are now employed.

What I am asking you is do you believe that this is a way in which we are going to achieve any degree of employment stability or the right type of full employment if, in doing so, we are simply going to reduce wages and therefore share the misery?

Mr. O'Dwyer. Congressman, we talk about the American standard of living and we talk about the fact that there is great distinction between the Iron Curtain countries and the United States. We have more refrigerators, we have more cars, we have more television sets. How do we get that? We get that from a wage structure that permits an American to have it.

You are not going to have too many luxuries if you begin to debase it, that is for sure. This is what built it up. You cannot have it both ways: on the one hand, create a standard based upon workingmen's obligations to themselves and families to get the best for the time that they can get. That has been partially responsible for it, but to suggest that you now arrive at this and you debase the wages, certainly that is walking backward.

Mr. Hawkins. One final question, Mr. O'Dwyer. I think you dealt with incentives to the private sector to some extent. Every time incentives come up, invariably we talk about certain tax incentives. Are there not other incentives that business persons are interested in, indigenous to that? Of course, that may be one of them and I do not deny the use of it. However, I do not think H.R. 50 prohibits that.

Would you say also markets, aggregate demand, productive labor, work force, interest rates, the type of research and development done and made available to the private sector, and Federal expenditures in various forms whereby we hand out lucrative contracts, are not all of these things also incentives of a way of dealing with respect to the private sector and obviously intended to do?

The sum total of these presents quite a number of incentives through which we can help the private sector and create jobs. All of these should be considered along with tax incentives, also within the context of the private sector, as having some obligation to society itself, to use these incentives in a way that will help the general masses, the people, as well as just profits alone. I am not against profits, either.

Mr. O'DWYER. Congressman, I was delighted to see that you had provided that the Federal Reserve System at the beginning of the year in your bill would tell us what they planned for us for the balance of the year. Having in mind the power that they have over our society, that would not be a bad idea—let us in on it for the coming year, where they are going, what their ideas are, what the rate structure will be so that industry can have a chance during the course of the year.

I think that part of it is precisely along the same lines you have been talking about here.

Mr. HAWKINS. Thank you, Mr. O'Dwyer.

Thank you, Mr. Chairman.

May I ask that the article that I quoted from the Washington Post, April 12, 1976, entitled "Welfare Costs for Nation Climbs 21 percent" be inserted in the record, following Mr. O'Dwyer's testimony?

Mr. DANIELS. Do you make that a unanimous consent request?

Mr. HAWKINS. I do.

Mr. DANIELS. Hearing no objections to the unanimous consent request, so ordered.

I recognize the gentleman from Pennsylvania.

Mr. GAYDOS. Thank you, Mr. Chairman.

What are the unemployment figures in New York as of now?

Mr. O'DWYER. They say 7.6 percent. My opinion is that it is 20 percent. They are not taking into account the kids coming out of school, the people whose unemployment has run out and the number of people who have never been listed as being employed.

Mr. GAYDOS. You have the same concern that I and a lot of people have that the Bureau of Labor Statistics are not the most reliable figures.

Mr. O'DWYER. They have got figures from a limited source, and they hand it out. That is all.

Mr GAYDOS. As a practical matter, as the President of the council, how does the city, or a State, including our Federal Unemployment Bureau, how do they respond to a man who wants a job. Two classic examples: One who is uneducated; all he can do is very definite backbreaking work, like digging a ditch, to a highly trained professional engineer, victimized by the economy. He is unemployed.

What does the council or the city do for these two individuals? How do they respond to him now.

Mr. O'DWYER. They say they are sorry. Not only that, into my office the other day came a whole group of people who had their doctorates in various sciences. There was no way for them to be employed, 250 of them that were graduates of universities not working, absolutely unemployed, people whom we have, from taxpayers' money, we have educated, we have given them education in various fields and they cannot use it at the present time.

Mr. GAYDOS. It is rather accurate for me to observe that they go through the process of signing up, reporting, sitting, waiting, going home, they continue that. There is no practical area of employment, needed employment, for that unfortunate individual outside that he might not be so unfortunate if he is collecting some kind of unemployment benefit, but if it has run out, he is in serious trouble, is he not?

Mr. O'Dwyer. At this point, you are back again to where we were 40 years ago.

Mr. Gaydos. Before he qualifies for welfare, he has to drastically change his standard of living, get rid of any assets he has, is that not true?

Mr. O'Dwyer. He is allowed a few bucks to bury himself.

Mr. Gaydos. Based on those things, that observation you and I agreed upon, did you, as I did, find some question with my colleague, Mr. Sarasin, in questioning how rapidly we go through the procedures and end up as the employer of last resort.

Does that bother you, if a man jumps into it immediately if circumstances dictate, that it happen?

Mr. O'Dwyer. I know it can happen; I would like to have it happen tomorrow. As a practical matter, we would not get around to it that fast.

Certain, its desirability, I cannot—it is desirable.

Mr. Gaydos. As a public official in one of the most populous States of this union of ours, based on your experience that you indicated here in your testimony, the position you now hold, do you share my belief that in changing times, changing solutions must come about and we are going to have to discharge as a Nation our fundamental obligation to the people to provide at least a job, a workplace.

Does that seem to you the most fundamental and sensitive area of any of the problems we may have currently before us?

Mr. O'Dwyer. I have the experience that not anybody on the panel has had of having been admitted to practice law the day when the depression was at its height. That day, by luck, I got a job on board a ship so I could work for a living.

I had a lawyer certificate in my pocket. It was not worth much to me.

I can tell you, we are going through the same thing now that we had gone through from 1929 to 1933. We sat and we waited and we thought possibly if we helped the economy at the top it would trickle down to the bottom, but it never got down to the bottom, and now the question arises, at what point does the government step in? Is it at a point of 30 percent, 40 percent, 50 percent, 25 percent?

Obviously your obligation is there, because if you are going to let the conditions drift as they have been drifting and you know what the inevitable is, unless there is some action taken by government, is it at a time when people are marching? Is that the time when government steps in to take care of the problems of distress, take care of the problems of malnutrition, the problem of housing, the variety of things that are necessary?

It seems to me that has gone too far. The sooner government gets onto it—obviously, it is its obligation. We know we did the same thing before and it did not help.

We attempted to let the private sector take care of it. They were not able to do it. It is not their function, in the first place.

Mr. GAYDOS. In your excellent observations, you agree with me—I think you do. I say that if we do not proceed in this area and put together in a fashion some kind of a program that we could experience some drastic reactions other than we have experienced in the last 200 years, including the great depression.

Do you think it has gone that badly or that far?

Mr. O'DWYER. I think times are different. I think in the last depression people were a lot more patient than they are today and I think from my own personal observation in the street, people I talk to, that we are close to a danger point.

I do not want to be an alarmist. You cannot possibly cut back and cut back and cut back that to which people have been entitled to, to get sort of a minimal reaction from government and at the same time suggest that they are going to accept it.

There comes a certain point—you do it now, do it again, finally it comes to the point where you have reached the point of no return and I do not want to give ideas to anybody, believe me, I do not think I need to, because by the time that the various deprivations have come to people and had an effect on their families, that will be a bad time for all of us.

Mr. GAYDOS. Comparing two situations, you did make an observation you thought the old depression had some different factors.

What was different then as compared to the situation that exists today?

You mentioned impatience. Are there any other problems involved?

Mr. O'DWYER. Of course, people are more enlightened on their rights today than they were then. The process of the last 200 years of reading the Constitution has been a slow process. Also, the process of recognizing the fact that the people at one time, the situation in the last few years—I want to talk in the most general terms with respect to this—the fact that for 150 years people let their obligation, insofar as the Senate and the Congress is concerned, they defaulted in that. Even today, you have a very low registration rate and a very low voting rate. By the same token, I think Congress and the Senate have in a sense accepted, not accepted and taken on the role that is outlined in the Constitution and we had more and more power drifting up to the top. Presidents began to acquire more and more power that was never meant by our basic documents.

What did that do for us? It finally gave us trouble. I do not want to pass on that, because the kind of trouble is not important. It is important that it finally caught up with us. Our failure to be able to read about the people who shaped this country in the first place and read what they had in mind for us and go according to that.

What I am saying is in the last few years, people got to the point where they do know a little bit more about it than they did before. They are more aware of their rights, aware of the obligations of Government, more conscious of the fact that Government did not do for them what was intended and may, by the same token, somewhat neglect to think of their own failure to live up to their rights and privileges.

But I think you have a different type of American today than you did in 1933 by virtue of that, one that is not likely to accept for too long the failure to be able to work, the failure to be able to make a living, for himself and his family. He is just not going to suffer that kind of indignity in large numbers.

Mr. GAYDOS. In conclusion, let me say this. Although some of my colleagues and some of the people may think that my questions are simplistic in nature, I look at your background, how active you have been over the span of years that you have been involved. I think it is most important to establish for the record by an individual, gentleman like yourself, in the official capacity like you hold, your observations in comparing the situation of the country as it was in the last 30, 40 years ago, and now. It is important in the elements involved in this legislation. It is just not an immediate assault on the problem, but I think it is a protection to the very core, the fundamental principle in this country and to our very survivorship.

I do not want to sound so pessimistic in my observation but I firmly believe that. I think you share my concern as indicated to your responses to those questions.

Thank you very much for your appearance. I apologize very much for not having been here when you made your initial statement.

Thank you.

Mr. O'DWYER. I do not think we have lost anything.

Mr. DANIELS. Do any of my colleagues desire to ask any other questions?

Hearing none, thank you very much.

[The article referred to follows:]

WELFARE COST FOR NATION CLIMBS 21%

The nation's family welfare expenditures soared by 21.4 per cent last year, partly because of the growing ranks of jobless fathers, the government said yesterday.

A record $24.8 billion was paid out in 1975 for Aid to Families with Dependent Children (AFDC), Medicaid health care for the poor and relief programs run by state and local governments. That figure is $4.4 billion higher than the 1974 expenditures and $7.1 billion higher than 1973's total.

The Department of Health, Education and Welfare news release issued yesterday focused on family welfare statistics for last December, which rose over the previous month but at a slower rate than the same month a year earlier.

The department had the annual figures available but at first did not issue them as it had in past years because of the political sensitivity of the welfare issue in an election year, informed sources said.

In response to a reporter's query, HEW released the annual figures, which showed that a cumulative total of 266,000 families were added to AFDC rolls in 1975, an 8.3 per cent increase to nearly 3.5 million families.

The number of individual AFDC recipients increased by 479,0000, a 4.4 per cent increase to more than 11.3 million persons.

The biggest jump was the 33.6 per cent—about 30,000—increase in the number of unemployed-father families on AFDC rolls in 1975, HEW said. This category rose to a total of 120,000 families with 527,000 recipients.

Families headed by mothers still formed the bulk of the AFDC rolls, however. The government said there was a cumulative increase in that category of 236,000 families with 361,000 new welfare beneficiaries, most of them children.

General assistance programs, run by state and local governments without federal matching funds, added 145,000 families last year. That was a 27.8 per cent increase to 667,000 families, with 965,000 recipients.

The largest increases in the spending figures were 34.8 per cent to $43.9 million for payments to families headed by jobless fathers, a 34 per cent increase to $1.5 billion in general assistance, and a 23.7 per cent increase to $13.9 billion in Medicaid.

The unemployment rate last year averaged 8.5 per cent, compared with 5.6 per cent in 1974.

AFDC cash payments exceeded $9.2 billion last year, up 16.3 per cent. Monthly payments averaged $220.22 per family and $67.75 per recipient, up from $204.97 and $60.82 respectively in 1974.

The state and local general assistance programs paid an average of $141.96 per family and $198.14 per recipient last year.

Mr. DANIELS. The Chair will declare a brief recess.

Our next witness is the honorable and distinguished Senator from the State of Minnesota, Hubert H. Humphrey, and I received a message from his office to the effect that his plane just landed and he is enroute to this hearing, so the Chair will declare a short recess.

[A brief recess was taken.]

Mr. DANIELS. The subcommittee will come to order.

Our next witness is the distinguished and honorable Senator from the State of Minnesota, Senator Hubert H. Humphrey.

Senator, we welcome you here this morning. We look forward with interest to your comments on this very important bill of which you are the coauthor with our colleague, Mr. Hawkins, H.R. 50.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator HUMPHREY. Thank you, Mr. Chairman and members of the subcommittee. I am sure you know I appreciate this opportunity to be with you today to testify on the Full Employment and Balanced Growth Act of 1976, the bill in the House, H.R. 50.

I am very honored to be here along with my compatriot, we cosponsored this legislation, Congressman Hawkins.

I might add there is a very substantial list of Senators who are cosponsoring in the Senate. Our list grows every day. I can also say to you, Mr. Chairman that the interest in this proposed legislation is very high.

The Joint Economic Committee saw this. It is receiving numerous calls each day for information. Of course, there is considerable discussion of the proposed legislation in the media, the public press, and radio and television.

Most Americans have begun to realize that there is something fundamentally wrong with our Nation's economy; from month to month the statistics fluctuate, new patterns emerge and hopes rise and fall. But beneath it all, there remain serious economic problems that threaten the vitality of our mixed capitalist system.

That may sound alarming. Unfortunately, the record bears it out. During the past 5 years, U.S. economic growth rates averaged only about 1.8 percent per year, compared with a historical average of about 4 percent.

In that one statistical comment, you have the true picture of what has been happening to us.

Because of this shortfall, the Nation has lost some $500 billion in production of goods and services in the last 5 years alone. And we can expect to lose another $600 to $900 billion by 1980.

That astounding waste, I underscore the word waste, lies at the center of our economic problems. It has resulted in more than 9 million Americans without productive roles in society, and large Federal deficits to pay for that lack. It has idled our plant capacity and has given rise to grave problems of health care, housing, welfare and crime—all of which are linked directly to unemployment.

Even inflation, in large measure, has been the result of our failure to use the resources which are available to us.

I call to the committee's attention—I am sure you have seen it this morning, because this is from the Washington Post—might I add that I picked up the Minneapolis and St. Paul papers at the Twin City Airports. It was a front page story about the welfare costs; the welfare costs for the Nation climbed 21 percent. The Nation's family welfare expenditures soared at 21.4 percent last year, partly because of the growing ranks of jobless fathers. A record $24.8 billion was paid out in 1975 to families in aid to dependent children, medicare, aid to the poor run by local and State governments. That figure is $400 billion greater than the 1974 expenditures, $7.1 billion higher than 1973 totals.

> The Department had the annual figures available. At first it did not issue them, as it had in past years, because of the political sensitivity of the welfare issue in an election year, informed sources say. The total cost of aid to families with dependent children and unemployment compensation in 1975 is approximately $45 billion.

Mr. DANIELS. If the distinguished Senator would yield, I would like to mention that our colleague, Congressman Hawkins, brought that to our attention this morning.

Senator HUMPHREY. I underscore, he generally is a little ahead of me.

Mr. HAWKINS. Not very often. This is the only time that I recall.

Senator HUMPHREY. I thought, when I read that story, knowing that I was to testify here this morning, that it almost made the case for what we are attempting to do, because we are constantly arguing about costs.

You must not argue costs in a vacuum. You must argue costs in terms of alternatives. The alternative of $45 billion outlaid in one year for these programs, that does not tell you anything about loss of revenues that comes to Government.

Last year, State and local government lost $27 billion of revenue because of the recession, $27 billion. Every State and city in the United States has had to cut back services, vitally needed services.

Coming to grips with those problems, problems that we have mentioned here and that you have heard of, will require nothing less than bedrock reform of the way in which we try to manage the economy.

It will require this Nation to answer an absolutely basic question: What is the most important function of Government if not to assure that all citizens willing and able to work are given an opportunity to contribute to the strength of America?

One answer to that question is contained in the Full Employment and Balanced Growth Act of 1976, authored by myself and Congressman Augustus Hawkins and cosponsored by many other members of both Houses of Congress. This measure recognizes that there is no simple path to full employment through a single bill or program, and instead it proposes a general economic policy framework with a package of programs to give that new structure direction and meaning.

The actual activities will vary from year to year, depending upon economic conditions, and congressional decisions, and this flexible process is the major strength of the legislation.

The act sets an initial objective of 3 percent adult unemployment to be achieved within 4 years from the date of enactment. Admittedly, this is an ambitious goal. But it can be done, given the new policies set forth in the act, including the requirement that the President review the employment goal to determine what specific obstacles may stand in the way of its achievement.

I want to say, as I have said in other places, when I hear a comment about the 3 percent goal, unless we establish it as a goal, we are going to find ourselves drifting into an acceptance of 5 percent unemployment and 6 percent unemployment.

When I first came here to Congress, we were still talking about a 3 percent unemployment goal, Mr. Chairman. In 1949, if you will review the records of the legislation at that time, we were talking about 3 percent unemployment as an achievable goal. Then we convinced ourselves that it could go to 4 percent and call it full employment.

In recent years, the talk in high circles of Government and the finance community is 5 percent. Now we are hearing if we can get it down to 6 percent by 1980 we will be doing well.

I refuse to accept that kind of a standard, knowing full well that no other country, industrialized country on the face of the earth, does accept such a standard.

The best way to justify a 3 percent unemployment goal for adult—I differentiate that from the youth unemployment because their pattern of employment is very different and difficult—I justify a 3 percent goal because other countries have done it, and done it year after year after year.

I do not feel the United States is less able to employ its people than Germany, France, England, Norway, Sweden, Denmark, Luxembourg or Belgium or Holland. All of them have had unemployment under 3 percent, every one of them.

Here we have people today getting on the radio and television, hemming and hawing, wondering whether or not we can get unemployment down to 3 percent. When did we become less able to do this than others?

It amazes me that the Congress is worried about being second best to Russia in military power and does not worry about being second best to half the rest of the industrial world in economic efficiency. I think we ought to stick this home hard. I do not believe this country should be second best in anything, Mr. Chairman, not in anything. I am perfectly willing to vote the money that is necessary to keep this country strong.

When I hear people say we are second best to the Soviet Union in military power, I say that we will not tolerate it.

I want to know, will you tolerate, and will this Congress tolerate, having the United States second best to other countries.

I listed little Luxembourg, Holland, Britain, France, Germany, Sweden, Denmark, Finland. I am not talking about the full employment they have in the Soviet Union or in the Eastern bloc countries, because they have a different system from ours. They have no unemployment, none whatsoever, because they have work programs, of course, to put everybody to it.

My challenge today to those who are our critics, no second best to anybody. No second best to the Russians in strength, no second best to industrialization and economic productivity.

As I said here, there are a number of policies that I would like to quickly summarize. I am just going to put them in the record to save you time, because you have gone through this. That is on page 3 of my testimony.

Taken together, these policies will bring coherence to our national economic policies and yield substantial benefits to the private economy as well as to our citizens. Between now and 1980, unemployment could be cut from 7.5 percent to 3 percent, with a gain of roughly $500 billion of additional economic production and a substantial reduction in both welfare payments and the Federal deficit. Crime and the other social costs associated with unemployment will be drastically reduced.

I might say, the figure I used there, the 7.5 percent, includes youth unemployment at the present time. If you were just talking about adult unemployment, you would be trying to cut it down from 7.5 percent down to 3.5 percent if you used adult unemployment across the board.

Against these benefits, one must, of course, consider the costs and any possible difficulties that may be associated with achieving the objectives of the bill. There have been criticisms made of the bill and these should be debated on the merits during the committee hearing process. Let me turn to some of these questions now.

Is the 3 percent adult unemployment goal unrealistic? Some have said that we cannot achieve such a goal, either without explaining why, or by arguing that such a goal is too inflationary. This is an ambitious goal, certainly, but there are several reasons why I believe it is realistic.

First, I believe we should define the term adult as persons 18 years of age or older, which implies an overall unemployment rate of about 3.5 percent.

Mr. **Daniels**. I might say at that point, Senator, H.R. 50 that we are considering defines adult as 16 years of age or older.

Do you concur with Mr. Hawkins on his definition?

Senator **Humphrey**. I put it at 18 myself. That is something for this committee to decide. I consider adult unemployment 18 years and above.

Mr. **Hawkins**. If I may simply say, we would consider either objective to be highly desirable. I do not think the issue revolves around that one definition, but either achievement, I think, would be highly acceptable and desirable, regardless of whether we use the definition Senator Humphrey has just indicated or the definition we have been using.

Senator **Humphrey**. It would make little difference in the percentage, frankly. Either one is acceptable.

This is a point that the committee may want to finalize.

Mr. DANIELS. Could you give us your views on this Senator.

Senator HUMPHREY. As we both indicated, this is only ½ a percentage point below what was considered full employment in the Kennedy-Johnson years. I might add that we went below 4 percent for 4 years during that period, beginning in 1966, while holding inflation to a 4 percent annual rate.

Second, we must have new economic policies to get at stubborn pockets of unemployment, if we are to achieve this long-term goal, and the bill provides for such policies.

I will skip over the material here. It does provide for that, and I ask that my whole statement be incorporated.

Finally, it should be remembered that a goal is an objective—not an absolute requirement. The purpose of setting goals is so that we can do better, not achieve perfection for all times. This bill provides for annual review of the goal and, it should be emphasized, also requires the President in the first year to review the full employment goal and timetable and report to the Congress on any obstacles to its achievement and, if necessary, propose corrective economic measures to insure that the full employment goal and timetable are achieved.

Will the act accelerate inflation? Those who argue that more production and employment cause inflation have got things turned upside down. The way to reduce prices is to increase production, productivity, and the supply of goods and services like food and health care.

I want to make note of the fact that back in the period of the 1960's we had inflation at an annual rate of the total period of the 1960's of less than 4 percent. We had 4 years of unemployment at under 4 percent.

I am not propounding a theory when I say productivity and production is the answer to inflation, but reporting the facts. During the early 1950's and again in the mid-1960's, increased production and employment was accompanied by lower rates of inflation. Our recent experience with unemployment and inflation tells the same story. In 1975, when we reached an unemployment rate of about 9 percent, we had an inflation rate that for many months exceeded 10 percent. Since then, as production was increased, and unemployment reduced, the rate of inflation dropped by about one-half.

Although I believe production and productivity are the best weapons against inflation, I recognize that as the economy approaches full utilization of its human and capital resources, bottlenecks and price pressures are likely to develop. For that reason, the bill requires the inflation situation to be constantly monitored, and the President to annually submit a comprehensive set of antiinflation policies that are relevant to changing conditions.

I mention this, I wish I could put it in capital letters in this testimony, because this bill does not ignore the inflation problem, as I have heard some people say in the public media. What we say is, the President shall—as I said, the President, the bill requires that the inflation situation be constantly monitored and that the President annually submit a comprehensive set of antiinflation policies.

We do not spell out those policies. We cannot do it, because you do not have that kind of foresight. You need to have a President and an administration that is monitoring this program all the time.

Finally, there is full provision in the bill for these actions to be as thorough and tough as necessary—to promote reasonable price stability if situations develop that seriously threaten price stability.

Will the bill be extremely costly? Some of those who have argued that the bill will cost a great deal are confused about the meaning of cost and investment. First, there are two kinds of costs: one, the budgetary costs associated with programs mandated under the act; and two, the resource costs associated with the inefficient use of national resources.

Budgetary costs can only be evaluated in conjunction with the investment made, the Federal spending saved by making the investment, and the increased tax revenues due to the investment. If public moneys are wisely spent, the budgetary costs of our proposal can be less than the benefits from the investment.

The cost associated with the inefficient use of resources, however, is not an investment but a waste of resources that can never be regained. It is like pouring money down a rat hole.

With these ideas about cost in mind, let me return to the question of the cost of the bill. The direct and immediate cost of this bill is small. It is a general economic policy bill, like the Employment Act of 1946, and the costs are limited to the administrative costs of expanding the staff of the council of economic advisers, creating a public advisory council, establishing the framework for the job reservoirs, and so forth.

Because we have endeavored to use existing institutions to the maximum extent, these direct costs would be less than $50 million.

There will be, of course, substantial indirect budget costs if all of the actions mandated by this bill are eventually undertaken. It is impossible, however, to estimate these costs precisely because they depend on such things as the strength of the private sector, economic recovery, the rate of growth in the labor force, and the specific design of the job creation programs mandated under the act.

Most importantly, the budget costs will depend upon decisions taken by both the President and Congress each year.

But let me give you some rough estimates of the indirect budget costs associated with this bill. If we sustain a moderate economic recovery, perhaps the kind of recovery projected by the administration, we could still face a job gap of between 2 and 3 million in some of the years between now and 1980. The budgetary costs of putting those people to work will fall in a range that is dependent upon the job gap.

If we have a job gap of 2 million persons, the gross budgetary costs could be roughly $16 billion, with that cost falling to about $8 billion after decreased welfare and unemployment compensation payments and increased tax revenues are considered. If we were to have a job gap of 3 million persons, the gross budgetary cost could be roughly $25 billion, with net budgetary costs of roughly $12 billion.

Therefore, I would say that the very rough estimates we have—and I would stress how rough these numbers are—would indicate that the indirect budget costs of this bill could be in the range of about $8 billion to $12 billion.

Compare that to what you read this morning. Compare that to $45 billion. Compare that to $25 billion in welfare alone.

Such budgetary costs are significant, the $8 billion or the $12 billion, but I want to emphasize the investment side of that spending. Employment of one person may cost twice as much, or more, in dollars as unemployment benefits or welfare—but, remember that the person is employed and has a productive role in society. Building houses or factories cost more in dollars than doing nothing—but remember that you then have the national asset of a house or a factory. Doing something usually costs more than doing nothing, but if you are wise about what you do, it is always worth it.

Let me conclude by saying a word on the resource cost side of this bill. As I indicated earlier, the most debilitating costs are those that occur when human and capital resources are squandered. This bill has no such resource costs—it has only benefits because it puts to work capital and human resources that are now being wasted because they are unemployed. As I said before, the Nation could gain the benefits of $500 billion in additional goods and services by 1980.

I believe this cost picture shows that full employment is a bargain. The budgetary costs are largely offset by the decreased welfare payments, increased tax revenues, and the value of the goods and services created by the jobs. In addition, there is the great cost saving that comes from using capital and human resources that are now being wasted.

Would the wage standards cause a shift from private to public employment? Some people have argued that the wage standards are so generous that they would cause a shift from private to public employment. I don't believe this is true. I believe the wage standards are "neutral" between the private and public sectors because they simply reaffirm existing, fair wage standards.

The key to understanding the wage standards is to carefully read section 402. That section states that people employed under the bill shall receive "equal wages for equal work." It then prescribes a range of wage standards from the minimum wage to prevailing wages for similar employment in the specific labor markets. This means that someone doing a job that merits the minimum wage will be paid that wage, while a skilled worker doing a job of higher value will be paid commensurate wages.

That is on public works, for example, if you engage in important public works. I believe this is a flexible and fair set of wage standards.

Is this bill not just a large public service job bill? This is a large and complex bill that some people have chosen to simplify as a public service job bill. As Congressman Hawkins has told you, that is not what this bill is all about.

I have already outlined to you the 10 major elements of the bill, the majority of which are designed to improve the management of the Federal Government and encourage production in the private sector.

This bill is the only measure that has been brought before Congress in the 5 or 6 years that I have been here since 1971 that emphasizes the role of the Federal Government to stimulate the private sector in a systematic manner. Every other bill we have taken action on has been a public service bill or public jobs bill or an emergency public works bill. We put a combination here, with the emphasis on the private sector.

The setting of national economic policy, the provision for long-range planning, the improved productivity and anti-trust provisions, and the economy in government measures will all improve the growth and performance of the private sector.

Let me emphasize so this record again will be complete, this is the one bill that provides for a complete review of every Federal program on our statute books. You talk about economy in Government, we have a lot of speeches around here about this bill not working, but this bill compels the President and the Congress, if adopted, to review every single program on a dollar basis as to whether that program is yielding results, whether it is needed or relevant to the times.

It also requires the President to present an annual review of all regulations and Government agencies. Instead of all of this talk about regulatory agencies, all of this kind of redtape, we cut this kind of redtape, and say to the President, you must present every year a review of the impact of regulations on this economy. That is the only way it is going to be done. You are going to have to mandate it.

Otherwise, it will be nothing more or less than a lot of political poppycock. People will be running around, making speeches about regulations and doing nothing about them.

There is not a one of those regulations found in the Bible. None of them are rediscovered Dead Sea Scrolls. They are written by some bureaucrat in these Departments. All they have to do is be reviewed. Those not worth a hoot, we get rid of them.

How are you going to do it? That is what you have a President to do. That is what you have a Budget Office to do. That is what you have a Cabinet for. That is what they ought to be asked to do.

Mr. Chairman, I am here to tell you that until the President of the United States, whoever he is, until his Cabinet and his Budget and his Budget Office make up their minds to do something about these rules and regulations, nothing is going to be done. You and I cannot do it over here. It has to be done by the leadership of the executive branch. They are the ones who wrote it.

Every pencil I know of has an eraser. It has lead on one end and an eraser on the other. The problem with this Government is that it has too much lead on one end.

I am tired of hearing about all of these rules and regulations, everybody chewing on them like a dog chews on a bone and doing nothing about them.

In title II of this bill, there are several supplementary job measures to encourage employment in both the public and private sector. In addition to improved public jobs, that title prescribes a national development bank to encourage private development and employment, as well as antirecession assistance to State and local governments, improved job training in the private sector, and the use of private, nonprofit organizations to increase employment.

Only as a last resort, after the private sector has been fully utilized, does the bill provide for federally operated public employment projects and private nonprofit projects. This provision is based on the belief that, if people cannot obtain employment through any other means, it is better to give them a job funded by the Government than it is to write those people a check to do nothing.

In this, I am happy to say that Dr. Arthur Burns and Congressman Hawkins and Hubert Humphrey are together. Here is a rather conservative gentleman, head of our Federal Reserve Board, that has come out four-square and forthwith for the ideas of the Federal Government having to give a job, if no other is available.

I think that is about it. I want to compliment this committee on its initiative. I think you will process this legislation.

[Prepared statement of Hon. Hubert H. Humphrey follows:]

PREPARED STATEMENT OF SENATOR HUBERT H. HUMPHREY, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to be with you today to testify on the "Full Employment and Balanced Growth Act of 1976."

Most Americans have begun to realize that there is something fundamentally wrong with our nation's economy; from month to month the statistics fluctuate, new patterns emerge and hopes rise and fall. But beneath it all, there remain serious economic problems that threaten the vitality of our mixed capitalist system.

That may sound alarming. Unfortunately, the record bears it out. During the past five years, U.S. economic growth rates averaged only about 1.8 percent per year, compared with a historical average of about 4 percent. Because of this shortfall, the nation has lost some $500 billion in production of goods and services in the last five years alone. And we can expect to lose another $600 to $900 billion by 1980.

That astounding waste, I underscore the word waste, lies at the center of our economic problems. It has resulted in more than 9 million Americans without productive roles in society, and large federal deficits to pay for that lack. It has idled our plant capacity and has given rise to grave problems of health care, housing, welfare and crime—all of which are linked directly to unemployment. Even inflation, in large measure, has been the result of our failure to use the resources which are available to us.

Coming to grips with those problems will require nothing less than bedrock reform of the way in which we manage the economy. It will require this nation to answer an absolutely basic question: what is the most important function of government if not to assure that all citizens willing and able to work are given an opportunity to contribute to the strength of America?

One answer to that question is contained in the Full Employment and Balanced Growth Act of 1976, authored by myself and Congressman Augustus Hawkins and cosponsored by many other members of both Houses of Congress. This measure recognizes that there is no simple path to full employment through a single bill or program, and instead it proposes a general economic policy framework with a package of programs to give that new structure direction and meaning. The actual activities will vary from year to year, depending upon economic conditions, and Congressional decisions, and this flexible process is the major strength of the legislation.

The Act sets an initial objective of 3 percent adult unemployment to be achieved within four years from the date of enactment. Admittedly, this is an ambitious goal. But it can be done, given the new policies set forth in the Act, including the requirement that the President review the employment goal to determine what specific obstacles may stand in the way of its achievement. Let me briefly summarize some of these new policies.

(1) A new cooperative process is created among the President, Congress and the Federal Reserve for the establishment of annual, numerical economic goals. This will encourage the development of a unified annual economic policy.

(2) New requirements are placed on the Federal Reserve to make it a full partner in national economic decisions.

(3) The President is required to determine the extent to which budget policy can be relied upon to achieve full employment so that government spending does not excessively inflate the economy.

(4) A planning capability is provided for in the Executive Office of the President to give us a better idea of where the economy is headed over the long-run and how we can most efficiently achieve full use of our human and capital resources.

(5) The Act also provides for economy in government measures to review and make recommendations for improvement of 20 percent of all government programs and regulations each year.

(6) The Act requires that work be substituted for welfare, unemployment compensation, and income maintenance spending to the maximum practical extent.

(7) Comprehensive anti-inflation policies are required in conjunction with the annual policymaking process, with an emphasis on increasing productivity and the supplies of necessities such as food and fuel.

(8) Provision is made for a range of employment programs that focus on structural problems of unemployment in depressed regions, states and among groups in the labor force who have special unemployment problems, such as youth.

(9) A comprehensive counter-cyclical employment program is required, with special emphasis on a grant program to stabilize State and local governments during recessions and thereby prevent contradictory fiscal actions at different levels of government.

(10) After the private sector has been fully utilized, and all other provisions of this Act have been employed, the Federal government is responsible for ensuring that the remaining unemployed above 3 percent adult unemployment are provided jobs.

Taken together, these policies will bring coherence to our national economic policies and yield substantial benefits to the private economy as well as to our citizens. Between now and 1980, unemployment could be cut from 7.5% to 3%, with a gain of roughly $500 billion of additional economic production and a substantial reduction in both welfare payments and the Federal deficit. Crime and the other social costs associated with unemployment will be drastically reduced.

Against these benefits one must, of course, consider the costs and any possible difficulties that may be associated with achieving the objectives of the bill. There have been criticisms made of the bill and these should be debated on the merits during the Committee hearing process. Let me turn to some of these questions now.

IS THE 3-PERCENT ADULT UNEMPLOYMENT GOAL UNREALISTIC?

Some have said that we cannot achieve such a goal, either without explaining why, or by arguing that such a goal is too inflationary. This is an ambitious goal, certainly, but there are several reasons why I believe it is realistic.

First, I believe we should define the term "adult" as persons 18 years of age or older, which implies an overall unemployment rate of about 3.5%. This is only ½ of a percentage point below what was considered "full employment" in the Kennedy-Johnson years. I might add that we went below 4% for 4 years during that period, beginning in 1966, while holding inflation to a 4% average annual rate.

Secondly, we must have new economic policies to get at stubborn pockets of unemployment, if we are to achieve this long term goal, and the bill provides for such policies. There is no iron law sent down from the heavens that decrees you can't reduce adult unemployment to 3%, because other industrialized countries have done it. Over the period 1962–73, while the U.S. had an average unemployment rate of 5 percent, the countries of Japan, France, United Kingdom, Sweden, and Germany had an average unemployment rate of 1.8 percent.

Finally, it should be remembered that a goal is an objective—not an absolute requirement. The purpose of setting goals is so that we can do better, not achieve perfection for all times. This bill provides for annual review of the goal and, it should be emphasized, also requires the President in the first year to review the full employment goal and timetable and "report to Congress on any obstacles to its achievement and, if necessary, propose corrective economic measures to insure that the full employment goal and timetable are achieved."

WILL THE ACT ACCELERATE INFLATION?

Those who argue that more production and employment cause inflation have got things turned upside down. The way to reduce prices is to increase production, productivity, and the supply of goods and services like food and health care.

I am not propounding a theory, but reporting the facts. During the early 1950's, and again in the mid-1960's, increased production and employment was accompanied by lower rates of inflation. Our recent experience with unemployment and inflation tells the same story. In 1975, when we reached an unemployment rate of about 9%, we had an inflation rate that for many months exceeded 10%. Since then, as production was increased and unemployment reduced, the rate of inflation dropped by about one half.

Although I believe production and productivity are the best weapons against inflation, I recognize that as the economy approaches full utilization of its human and capital resources, bottlenecks and price pressures are likely to develop. For that reason, the bill requires the inflation situation to be constantly monitored, and the President to annually submit a comprehensive set of antiinflation policies that are relevant to changing conditions. There is full provision in the bill for these actions to be as thorough and tough as necessary—"to promote reasonable price stability if situations develop that seriously threaten price stability."

WILL THE BILL BE EXTREMELY COSTLY?

Some of those who have argued that the bill will cost a great deal are confused about the meaning of cost and investment. First, there are two kinds of costs: 1) the budgetary costs associated with programs mandated under the Act; and 2) the resource costs associated with the inefficient use of national resources. Budgetary costs can only be evaluated in conjunction with the investment made, the Federal spending saved by making the investment, and the increased tax revenues due to the investment. If public monies are wisely spent, the budgetary costs of our proposal can be less than the benefits from the investment. The cost associated with the inefficient use of resources, however, is not an investment but a waste of resources that can never be regained. It is like pouring money down a rat hole.

With these ideas about cost in mind, let me return to the question of the cost of the bill. The direct and immediate cost of this bill is small. It is a general economic policy bill, like the Employment Act of 1946, and the costs are limited to the administrative costs of expanding the staff of the Council of Economic Advisers, creating a public Advisory Council, establishing the framework for the job reservoirs, and so forth. Because we have endeavoured to use existing institutions to the maximum extent, these direct costs would be less than $50 million.

There will be, of course, substantial indirect budget costs if all of the actions mandated by this bill are eventually undertaken. It is impossible, however, to estimate these costs precisely because they depend on such things as the strength of the private sector economic recovery, the rate of growth in the labor force, and the specific design of the job creation programs mandated under the Act. Most importantly, the budget costs will depend upon decisions taken by both the President and Congress each year.

But let me give you some rough estimates of the indirect budget costs associated with this bill. If we sustain a moderate economic recovery, perhaps the kind of recovery projected by the Administration, we could still face a job gap of between 2 and 3 million in some of the years between now and 1980. The budgetary costs of putting those people to work will fall in a range that is dependent upon the job gap.

If we have a job gap of 2 million persons, the gross budgetary costs could be roughly $16 billion, with that cost falling to about $8 billion after decreased welfare and unemployment compensation payments and increased tax revenues are considered. If we were to have a job gap of 3 million persons, the gross budgetary cost could be roughly $25 billion, with net budgetary costs of roughly $12 billion. Therefore, I would say that the very rough estimates we have—and I would stress how rough these numbers are—would indicate that the indirect budget costs of this bill could be in the range of about $8–12 billion.

Such budgetary costs are significant, but I want to emphasize the investment side of that spending. Employment of one person may cost twice as much, or more, in dollars as unemployment benefits or welfare—but, remember that the person is employed and has a productive role in society. Building houses or factories cost more in dollars than doing nothing—but remember that you then have the national asset of a house or factory. Doing something usually costs more than doing nothing, but if you are wise about what you do it is always worth it.

Let me conclude by saying a word on the resource cost side of this bill. As I indicated earlier, the most debilitating costs are those that occur when human and capital resources are squandered. This bill has no such resource costs—it has only benefits because it puts to work capital and human resources that are now being wasted because they are unemployed. As I said before, the nation could gain the benefits of $500 billion in additional goods and services by 1980.

I believe this cost picture shows that full employment is a bargain. The budgetary costs are largely offset by the decreased welfare payments, increased tax revenues, and the value of the goods and services created by the jobs. In addition, there is the great cost saving that comes from using capital and human resources that are now being wasted.

WOULD THE WAGE STANDARDS CAUSE A SHIFT FROM PRIVATE TO PUBLIC EMPLOYMENT?

Some people have argued that the wage standards are so generous they would cause a shift from private to public employment. I don't believe this is true. I believe the wage standards are "neutral" between the private and public sectors because they simply reaffirm existing, fair wage standards.

The key to understanding the wage standards is to carefully read section 402. That section states that people employed under the bill shall receive "equal wages for equal work." It then prescribes a range of wage standards from the minimum wage to prevailing wages for similar employment in the specific labor markets. This means that someone doing a job that merits the minimum wage will be paid that wage, while a skilled worker doing a job of higher value will be paid commensurate wages.

I believe this is a flexible and fair set of wage standards.

ISN'T THIS BILL JUST A LARGE PUBLIC SERVICE JOBS BILL?

This is a large and complex bill that some people have chosen to simplify as a public service jobs bill. I have already outlined to you the ten major elements of the bill, the majority of which are designed to improve the management of the Federal government and encourage production in the private sector. The setting of national economic goals, the improved use of fiscal policy, the integration of the Federal Reserve into national economic policy, the provision for long-range planning, the improved productivity and anti-trust provisions, and the economy in government measures will all improve the growth and performance of the private sector.

In title II, there are several supplementary job measures to encourage employment in both the public and private sector. In addition to improved public jobs, that title prescribes a national development bank to encourage private development and employment, as well as anti-recession assistance to State and local governments, improved job training in the private sector, and the use of private non-profit organizations to increase employment.

Only as a last resort, after the private sector has been fully utilized, does the bill provide for Federally operated public employment projects and private non-profit projects. This provision is based on the belief that, if people cannot obtain employment through any other means, it is better to give them a job funded by the government than it is to write those people a check to do nothing. As most of you know, Dr. Arthur Burns supports this same principle, which I believe is both a humane and conservative idea. In fact, Mr. Chairman, much of this bill is premised on the conservative belief that we ought to put people to work instead of keeping them on the dole.

Mr. Chairman, members of the Subcommittee, this concludes my formal statement. I am happy to answer any questions you might have. Thank you.

Mr. DANIELS. On behalf of the committee, I want to commend you for an excellent statement in support of this bill.

I do have a question which has been raised several times. Inasmuch as you are the coauthor of this legislation, I would like to ask you about the alleged constitutionality of this legislation.

Some people have expressed concern about certain provisions of the bill, specifically title II which you have just referred to regarding mandating the President to transmit to Congress legislation creating a comprehensive youth employment service. Senator, you have been a leader in the youth employment field for more than 20 years. Should not the Congress work on such legislation rather than mandate the Executive to come up with the bill?

Senator HUMPHREY. The Congress ultimately decides what the legislation is going to be. The President is mandated here to come forth with a program. That program will come to the Congress of the United States.

Mr. DANIEL. Can we compel him to come forward with legislation that he is not interested in?

Senator HUMPHREY. We surely can, Mr. Chairman.

We can compel the President, if need be, to stand on the steps of the White House all afternoon if we want to, by law. We have the authority to do so. We cannot tell the President that whatever he proposed is going to be the law. We can ask him to do so. We can ask him to prepare legislation, proposed legislation, bring it to the attention of the Congress.

Mr. DANIELS. I know that the Constitution does provide that he shall recommend legislation to the Congress. I was reversing that question as to whether or not instead of recommending or requiring him to recommend, that we mandate him to present legislation to Congress, especially if he disagrees with the program.

Senator HUMPHREY. If this bill is signed, whoever signs this bill, this President should sign this bill, he then accepts that responsibility. Of course, the President could veto this legislation on the basis that he does not think he ought to be mandated to do anything, or mandated to do a specific thing.

Then it would be a question of whether you wanted the Congress to override it. It is my judgment—I proclaim no expertise in constitutional law even though I think I have spent a little time studying it, but the Congress of the United States can require the President of the United States to perform certain functions.

There are certain things we cannot do. We cannot deny the President certain rights he has as an Executive. We can require him to perform certain duties that we believe are in the public interest. That is my judgment. There may be lawyers who come here who will say the contrary.

What we are requiring of the President is that this area which we say is so vital, this matter of youth, let us say youth unemployment. We, as a matter of Congress, can build into the legislation a statement of the concern of the Congress that the youth unemployment, as a result, has become a serious economic and social problem. Therefore, the Congress mandates that the President shall bring to the attention of the Congress his proposals to deal with it, not that the proposal will be the final ones to be accepted, but we at least ask for his advice and his counsel and his interest. I think we can mandate that.

Mr. DANIELS. I am glad to have you respond to that question.

I recognize the gentleman from Washington, Mr. Meeds.

Mr. MEEDS. Thank you, Mr. Chairman.

I commend the Senator for an excellent statement and your long-time interest in this entire field of unemployment and economics.

I think it is particularly significant that you appear today before us as chairman of the Joint Economic Committee, a committee of the Congress that has been studying this problem for a long time and has come up with some answers, many of which have found their way into this legislation.

I, too, along with you, am particularly concerned about youth unemployment and recognizing that youth unemployment is running at about 20 percent today, three times the national average of unemployment, would like to propound a question which I think fits in with some of the things you have talked about.

For instance, it may cost more in the short range to do something than to do nothing, but economic benefits from the long term can be gained by doing something. It is interesting that appearing recently on Meet the Press were six chiefs of police from the six major cities in the United States, and the columnist, Carl Rowan asked them all if there is one thing that you could do to reduce crime in the major cities of this country, what would you do.

You might have expected those hard-bitten chiefs of police to say larger police force, more lights, a lot of things, but four of the six said if they could reduce youth unemployment that could be the single most important thing to do in reducing crime in major cities.

Then let us take, for just a moment, another one of your fields of expertise—there are so many, but this is another one I know you have been very much involved in and instrumental in passing legislation regarding the National Forests of this country. You are the chief author of the Humphrey-Rarick bill, chief author of legislation now pending with regard to the clear-cutting issue. You have a very fine background in this.

I am sure you are aware, as I am, that there are 3½ million acres of Federal forestlands that have been cut over and never replanted.

Senator HUMPHREY. I am very much aware of it.

Mr. MEEDS. 3½ million.

I am sure you are also aware that we are told by the foresters with improved sylvaculture methods, improved methods in management of our forests, we could increase our allowable cut on our National Forests over a 10-year period between 20 percent and 40 percent.

Why can we not combine all of those young people who are eager and willing to do something with this? This is just one example. You can give all kinds of them. But those 3½ million acres need something done to them, with the whole concept of forest management.

That is a public service job, public service. It will produce for this country something that can be used 30, 40, 50 years down the line to produce capital and increase jobs in its own place. That is the kind of thing we are thinking about under this legislation, is it not?

Senator **Humphrey**. That is correct.

Congressman Meeds, let me say, in reference to forestry to which you have spoken, it is not just Federal lands that we have in forests. We also have State and county and there is hardly a State in the Union that does not have either State forests or county forests or Federal forests. Federal lands, of course, have much more in the West, but not totally.

Those forest areas offer an opportunity for wholesome employment, job instruction, of tremendous importance. On the one hand, you are giving people a job; on the other hand, you are renewing renewable resources. Maybe this is not the place to say it, but if we keep at it the way we are, not tending to our forests, we will have denied at least my grandchildren any chance for America to have a real forest products industry in this country.

Mr. **Meeds**. What effect on the price of logs and lumber would we have if we increased the productivity of our Federal forests by 20 percent to 40 percent? It is bound to bring the price down, is it not?

Senator **Humphrey**. Absolutely. Not only that, you are talking about protecting your environment. You are talking about clean air. You are talking about soil conservation. You are talking about clean lakes and clean rivers. One of the best ways to have all of that is to have proper tree planting, not just in forests, but also as a part of the aesthetic value of the countryside.

Congressman, we could put to work a half a million young men and women in tree planting in this country in 6 months.

Mr. **Meeds**. That is right, and have all of the benefits we have talked about.

Senator **Humphrey**. It costs $12,000 a year to incarcerate a person who is guilty of crime. That is the average cost. In county jails, it costs less, maybe $7,000 to $8,000. For $10,000 a year or $8,000 a year or $12,000 a year, you can employ young people. They would jump at the chance for a job.

We proved it once with the CCC camps around. I am not saying you revert necessarily back to what you had, but it can be done, and done under expert guidance and instruction. We could do much of this, I might say, with existing personnel, existing supervisory personnel.

My State has large timber areas. We have thousands of young people out of work in the Twin Cities. We have hundreds of them out of work in Duluth, Minn. I listened this morning on the radio, as I was leaving, 19,000 people this week exhausted their unemployment benefits; 15,000 have done so last month; 34,000 people—I do not know how many more—in the last two times I have been home, 34,000 people, it was announced, lost their compensation benefits. Our crime rate among youth is up and up. Our unemployment rate is still over 7.5 percent for my State.

We desperately need reforestation. This is the lifeblood of our economy. Forestry is the third largest industry in our State. For the Federal Government to sit around knashing its teeth and beating on its breast about welfare cheaters, and what have you and about the juvenile delinquency and not to do something like this, Congressman, to me, it is horrible.

Mr. MEEDS. I am sure you are aware of the bill over 80 of our colleagues have sponsored called the Young Adult Conservation Corps, expansion of the YCC, that fits very well in these concepts.

Senator HUMPHREY. Very definitely. I was author of the Job Corps, for example, of the industrialized type of training you could get.

Mr. MEEDS. This is a replica of the old CCC concept that we hope we will be marking up in the subcommittee right after we come back from recess.

Senator HUMPHREY. Congressman, and my colleagues here, let me tell you something. I know it sounds as if it is very repetitious. We have got to show the American people the difference between paying bills for crime and relief and welfare and investing in human resources and productive goods. We are just going to go broke doing what we are doing.

The crime bill in this country is so staggering, it is mounting every day. It is becoming a national scandal.

On the one hand, over here is the welfare bill that you saw this morning, and we have people, many that spend their time arguing about the cost of this measure, called H.R. 50.

You know, if somebody were to tell me that this bill costs $30 billion, if they were to say—which of course, they would not—I would say, what a bargain, what a bargain that would be. Even then you would be saving yourself billions of dollars.

Nobody has put in the cost figures in any of this legislation, the cost of crime. There is no way, Mr. Chairman, that we are going to stop juvenile crime by more cops, more police. No way. No way you are going to stop juvenile crime by going around telling them they ought to spend more time in a Halfway House or something, as important as that is. You have to give them work.

It is about time we made up our mind to do so. I consider Congress derelict unless they do this. Whatever we do in overall legislation, if we do not get our people back to doing something constructive in these great cities of ours, we are going to have guerrilla warfare in this country. We are going to have the kind of corrosion and erosion of spirit that would be devastating to us. I really beg of you to act.

By the way, Congressman, I want to thank you for what you have done on the jobs bill, on the public service jobs bill, the leadership you have taken over here, you and your colleagues.

Mr. DANIELS. Thank you.

Mr. MEEDS. Thank you very much, Senator.

Mr. **Daniels.** I would like to recognize the co-author of the bill, Congressman Hawkins.

Do you have any questions?

Senator **Humphrey.** There is nothing I can tell Gus Hawkins.

Mr. **Hawkins.** I was going to say the same thing, but in the reverse.

I think that Senator Humphrey's remarks have been excellent, as usual, and he has really brought out the salient points, with which I fully agree. I think that one of the happiest experiences I have had in my 40 years of public service has been on a piece of legislation of this kind with Senator Humphrey. He certainly has been a great inspiration and of great assistance to me.

I want to congratulate the Senator for his vision and foresight and his great capability and inspiration which he has given to all of us.

With that compliment, I would just like to conclude.

Mr. **Daniels.** Senator, once again, I would like to thank you for your appearance and testimony. It is always a delight to listen to you.

Senator **Humphrey.** Thank you very much. We depend on you to get action, Mr. Chairman.

Mr. **Daniels.** We will now conclude today's hearings. The committee will reconvene in room 2257 at 9 a.m. on Wednesday morning to continue hearings on this bill.

[Whereupon, at 12:35 p.m. the subcommittee recessed to reconvene for further hearing at 9 a.m. on Wednesday, April 14, 1976, in room 2257, Rayburn House Office Building.]

FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

WEDNESDAY, APRIL 14, 1976

House of Representatives,
Subcommittee on Manpower, Compensation
and Health and Safety of the
Committee on Education and Labor,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m. in room 2257, Rayburn House Office Building. Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Members present: Representatives Daniels, Hawkins, Meads, Quie, Esch and Sarasin.

Staff present: Daniel Krivit, counsel; Saralee Schwartz, research assistant; Nat Semple, minority counsel associate.

Also present: Dr. Alan Greenspan, Representatives Conyers, Donald Fraser, and Bella Abzug.

Mr. Daniels. The Subcommittee on Manpower, Compensation and Health and Safety will come to order.

This morning we begin our hearings on H.R. 50, the Full Employment and Balanced Growth Act of 1976. A mark up will occur immediately after our return from the Easter recess. Notice will be given to all members of the subcommittee as to the dates.

Our first witness this morning is Dr. Alan Greenspan, Chairman of the Council of Economic Advisers. Mr. Greenspan, we are happy to have you.

STATEMENT OF DR. ALAN GREENSPAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. Greenspan. I am grateful for the opportunity to appear before this subcommittee to discuss the views of the Council of Economic Advisers on the proposals embodied in H.R. 50, The Full Employment and Balanced Growth Act of 1976.

This is a set of proposals which, if adopted, would have major effects upon economic policy, the policymaking processes of the Federal Government, and the economy itself.

These proposals therefore deserve our closest examination. I might add that the discussions which have accompanied the bill and the issues which it raises have enhanced the educational processes that are important in economic policymaking. I think we certainly look forward in discussing the details and the concepts involved at great length as we go on.

Mr. Daniels. I am glad to hear it.

Mr. Greenspan. The bill has several major provisions which I would like to address this morning. It would establish a single numerical goal for full employment and commit the Federal Government to the achievement of that goal within 4 years.

The numerical goal is specified as "a rate of unemployment not in excess of 3 percent of the adult Americans in the civilian labor force." The bill also specifies programs and policies to be used in attaining the unemployment rate goal.

If the unemployment goal cannot be achieved through the use of standard fiscal and monetary policy measures, it is to be achieved by assigning an employer of last resort role to the Federal Government and "through reservoirs of federally-operated public employment projects and private non-profit employment projects."

The interpretation of the 3 percent adult unemployment rate goal is subject to some ambiguity. There are differences between the H.R. 50 and S. 50, and it obviously does make quite a significant difference with respect to what the unemployment target in fact is.

It makes a significant difference whether "adult" is taken to mean persons age 16 and older, age 18 and older, or age 20 and older. If the 3 percent goal refers to those 18 years of age and older, it would be equivalent to an unemployment rate for the entire labor force of close to 3.5 percent given the present composition of the labor force.

If it refers to those age 20 and over it would be equivalent to an unemployment rate for the entire labor force of about 4 percent. The 16 and older definition in H.R. 50 corresponds to our actual total unemployment concept, and therefore is equivalent to the actual published aggregate number.

But regardless of how these terms are eventually specified, it seems to me that there is a more important issue. Implicit in this legislation, and indeed, in any meaningful economic definiton of full employment is the presumption that employment means productive jobs; jobs supported by productive facilities which enable the high levels of productivity and hence the high wages which are the hallmark of the American worker.

When we speak of full employment our goal is not a statistic, but a labor market characterized by high employment and productivity.

There are only two ways to pay a high wage for a particular job. Either there is sufficiently high output per manhour in that employment to generate the real income implicit in the wage, or the difference is paid by someone else in the economy through a transfer or a subsidy. In that sense, putting people on a public payroll in an unproductive job is not much different from unemployment insurance since the activity that is taking place contributes relatively little to the total national product.

We may call it a job but in an economic sense that doesn't make it one. Hence I think it is important to recognize that productive employment should be implicit both in the concept of full employment and in any number we might use to designate the unemployment rate associated with full employment.

There are great difficulties involved in specifying the appropriate minimum unemployment rate. Our goal should be to produce the highest level of productive employment which is sustainable over the longer run.

What that level is at any particular time is far easier to specify when the economy is already operating in the vicinity of full employment.

Under those conditions one is better situated to judge the balance or the tradeoffs between employment, capacity, and a number of other factors whose interaction is vital to achieving and maintaining a high employment stability.

Our policy should focus on expanding economic activity as rapidly as feasible until we achieve that qualitative state. Specifying an unemployment number in advance does not, in my judgment, add much information to the economic policy decisionmaking process.

Suppose, for example, today we were to choose a 4 percent unemployment rate goal, but when we got into the vicinity of 4 percent we found that we could, in fact, achieve and sustain an even lower unemployment rate. Under these conditions we would clearly attempt to reach the lower rate.

In that instance the 4 percent objective would not have served a particularly useful purpose. On the other hand, suppose we discovered significant pressure with respect to the utilization of resources when we reached 5 percent, just to choose a number.

It would be clear at that point that an effort to reach a 4 percent unemployment rate would create destabilizing economic forces which eventually could very well push the economy into a recession and send the unemployment rate back up.

However, if we were committed at that point to achieve a 4 percent unemployment rate it would be more difficult to resist the pressures to do so. It, therefore, seems far preferable to strive to achieve the qualitative condition of full employment as quickly as we are able to do so.

Having a specific numerical objective in advance does not seem to be especially helpful and it might make the achievement of stable full employment somewhat more difficult.

The approach incorporated in H.R. 50 relies heavily on the ability of the economics profession to plan or to outline fairly precisely the path that must be followed to achieve and then maintain full employment.

I find the thrust of this argument troublesome. It presumes a detailed forecasting capability which is far beyond any realistic assessment of the present or immediately foreseeable capability of the economics profession.

A modern industrial economic system based even partly on market phenomena is so complex that any model or statistical abstraction, no matter how complex, is still a gross oversimplification of the dynamics of the system.

Models can never expect to achieve more than very rough approximations of the dynamics of the real world. These approximations are most useful but they fall significantly short of the analytic and forecasting requirements of the approach envisioned in H.R. 50.

Moreover, try as we might, it will be difficult to separate political considerations from the planning process. The Federal Government would sanction certain growth paths for total demand which would presumably be consistent with the unemployment targets.

This goal related projection, however, is almost certain to go wrong. For clearly, whatever comes out of the straight forward projection based on average historical relationships will surely be considered inadequate by the political process setting the goals.

Instead of basing the targets on the average expectation cranked out by the analytical process, there will be a tendency to adopt more optimistic and, by definition, less probable sets of projections as targets or as standards of performance. This would place the goals in the outer range, if not at the absolute extremes, of real growth, unemployment, and inflation possibilities.

Consequently, as real events unfold, the economy will have been found to have fallen short of the desired levels of production, employment, income, inflation, et cetera. This in turn will mean that either the goals will be abandoned or the Government will intervene further in the system to correct the "fault."

Implicit in H.R. 50's specifications that the Federal Government set not only economic goals but the particular policies that will get us here, is the presumption that our theoretical underpinnings enable us to construct and successfully follow such programs.

Since such a view is unrealistic, what would H.R. 50 mean in practice? If, the detailed policies fail to achieve the specified goals, as a practical matter public service jobs become the means to achieve the 3 percent unemployment goal.

For this reason, I believe we must examine the impact of expanded public service employment as a means of achieving our goal of full employment.

On the basis of experience with moderate-size public employment programs, numerous studies have concluded that public jobs programs do not ultimately create significantly more jobs than any other type of current policy, whether it be in the form of tax cuts or increased Government spending for other purposes.

In fact, the evidence suggests that after 2 years as much as 90 percent of those public sector jobs that were funded would have been created anyway through ongoing State and local efforts.

What happens is that State and local governments substitute Federal funds for their own funds as they expand. The additional Federal money enables State and local governments to lower taxes or raise them less than they otherwise would have. In this sense, a good deal of public employment funds indirectly becomes a form of general grants to State and local governments.

We do not have experience with the large-scale public employment projects contemplated in H.R. 50. As a result, the narrow extension of our most recent experience is not wholly applicable here.

Millions of jobs would have to be funded under these programs in order to reduce the unemployment rate as measured statistically to 3 or 4 percent.

Such large-scale public employment programs would entail a major increase in the number of workers committed to relatively low productivity jobs in the public sector. This would certainly slow the rise in overall productivity and hence in our standards of living.

The programs would not contribute to the capital investment required to create the productive jobs needed to regain a sustainable high employment economy.

Indeed the heavy budget costs of funding the programs would likely interfere with capital investment and the badly needed increases in job supporting facilities.

In short, we would be creating the types of problems which confront other countries where bloated public sector employment has become a serious impediment to growth, progress, and stability. This approach has proven to be shortsighted and counterproductive.

There is no question that extremely high unemployment and the hardships associated with it is one of the most serious problems currently confronting this country.

It is important however in devising policies to examine the nature of the problem carefully so that the remedies are applicable and do not focus on something other than the real problems.

There is, for example, an implicit notion in many unemployment reducing programs that unemployment is a stable and unchanging condition for those who are unemployed.

In reality our labor markets are characterized by an extraordinary amount of churning, involving entry and exit from the labor force and moves between jobs, occupations and geographic areas. The statistics suggest that unemployment is more generally of relatively short duration and experienced by a significant proportion of the labor force.

There were close to 8 million unemployed on average every week during 1975 and there are likely to be perhaps 7 million this year. But it is not the same people who are out of work month after month for periods of years.

If that were the case very specific economic policy remedies would have to be directed towards that problem. But the problem is quite different.

On average, based on past experience, we can estimate that approximately 25 million different people experienced one or more spells of unemployment in 1975, and perhaps one-third or more of these experienced at least two spells.

On average each spell of unemployment approximated 2 months and a large proportion of spells was of very short duration—several weeks.

Thus the approximately 400 million total weeks of unemployment experienced by our average 93-million work force in 1975 was characterized by a significant amount of turnover within the unemployment rolls.

Clearly if we are to confront appropriately the problem of severe unemployment it is important to recognize it for what it actually is. Public service jobs are not a sensible solution for short duration unemployment.

In fact, by taking a worker out of the labor market it may actually inhibit the normal processes of job search and productive reemployment.

Although most unemployment is characterized by high turnover and spells of short duration some is of a severe and prolonged nature.

When an individual who has been specifically trained to do a particular job loses that job it is often difficult to find another job that uses those skills.

When skills are not readily transferrable there is a structural problem that can be very painful to the worker caught in that position.

It is sometimes said that programs targeted to the long-term unemployed might be used to eliminate some of this type of unemployment.

However, there is no reason to believe that public jobs can be easily matched to the precise skills of these displaced workers. In fact, a public employment job that does not utilize these skills simply delays the readjustment process—the job training or relocation that must take place for the worker to become productive again.

Taking all of these factors into account, unemployment insurance coupled with job training programs for the long-term unemployed would appear to be the most appropriate response to our problem of excessive unemployment. It cushions the financial hardship associated with unemployment, allows time for job search, relocation, and retraining.

Our goal should be to achieve the reestablishment of a stable economy, the generation of productive job opportunities and a rising standard of living. Under normal circumstances this problem is difficult enough.

There are some compelling reasons, however, for believing that it may be more than normally difficult in the next several years.

The employment of our labor force in productive jobs in the private sector of the economy will require a very large increase in capital investment.

Not only must we provide the tools, the plant, and the equipment, we must also provide the investment required by the environmental and the safety legislation which is already on the books and by our energy objectives.

The studies of capital requirements are not precise. The basic data on our present capital stock or capacity are among the weakest of our economic statistics.

Furthermore, a long series of assumptions and qualitative judgments are required to estimate future capital requirements.

Taking into account our employment, productivity, environmental, safety and our energy goals business investment would have to average 12 percent of GNP from 1975 to 1980.

By comparison between 1965 and 1974 investment averaged 10.4 percent of GNP. This sounds like a small change but it actually would represent a large shift in the allocation of resources.

Real GNP in 1976 will be somewhere in the neighborhood of $1,260 billion, and 1 percentage point would be about $12 billion. But that 1 percentage point is equivalent to an increase in business investment of about 10 percent and that would have to come on top of the normal cyclical increase in investment which would occur in any event.

And it would have to be maintained for 5 years. Investment is unlikely to exceed 10 percent of GNP in 1975 and 1976 so that investment ratios well in excess of 12 percent will be needed in the next 4 years to put the required capital in place.

Without the investment required to produce the jobs and the productivity growth we will not achieve the increasing standard of living to which we have become accustomed.

Indeed, short of fundamental and improbable changes in our institutions or in our patterns of behavior, inadequate investment could prevent the attainment of high-employment conditions and price stability even if we were to accept the lower rates of productivity increases.

Thank you. Mr. Chairman.

[Prepared statement of Mr. Greenspan follows:]

PREPARED STATEMENT OF ALAN GREENSPAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

I am grateful for the opportunity to appear before this Subcommittee to discuss the views of the Council of Economic Advisers on the proposals embodied in H.R. 50. The Full Employment and Balanced Growth Act of 1976. This is a set of proposals which, if adopted, would have major effects upon economic policy, the policymaking processes of the federal government, and the economy itself. These proposals therefore deserve our closest examination.

The bill has several major provisions which I would like to address this morning. It would establish a single numerical goal for full employment and commit the Federal government to the achievement of that goal within four years. The numerical goal is specified as "a rate of unemployment not in excess of 3 percent of the adult Americans in the civilian labor force." The bill also specifies programs and policies to be used in attaining the unemployment rate goal. If the unemployment goal cannot be achieved through the use of standard fiscal and monetary policy measures, it is to be achieved by assigning an employer of last resort role to the Federal government and "through reservoirs of federally-operated public employment projects and private non-profit employment projects."

The interpretation of the 3 percent adult unemployment rate goal is subject to some ambiguity. It makes a significant difference whether "adult" is taken to mean persons age 16 and older, age 18 and older, or age 20 and older. If the 3 percent goal refers to those 18 years of age and older, it would be equivalent to an unemployment rate for the entire labor force of close to 3½ percent given the present composition of the labor force. If it refers to those age 20 and over it would be equivalent to an unemployment rate for the entire labor force of about 4 percent.

But regardless of how these terms are eventually specified it seems to me that there is a more important issue. Implicit in this legislation, and indeed, in any meaningful economic definition of full employment is the presumption that employment means productive jobs; jobs supported by productive facilities which enable the high levels of productivity and hence the high wages which are the hallmark of the American worker. When we speak of full employment our goal is not a statistic, but a labor market characterized by high employment and productivity.

There are only two ways to pay a high wage for a particular job. Either there is sufficiently high output per manhour in that employment to generate the real income implicit in the wage, or the difference is paid by someone else in the economy through a transfer or a subsidy. Putting people on a public payroll in an unproductive job is not much different from unemployment insurance since the activity that is taking place contributes relatively little to the total national product. We may call it a job but in an economic sense that doesn't make it one. Hence I think it is important to recognize that productive employment should be implicit both in the concept of full employment and in any number we might use to designate the unemployment rate associated with full employment.

There are great difficulties involved in specifying the appropriate minimum unemployment rate. Our goal should be to produce the highest level of productive employment which is sustainable over the longer run. What that level is at any particular time is far easier to specify when the economy is already operating in the vicinity of full employment. Under those conditions one is better situated to judge the balance or the tradeoffs between employment, capacity and a number of other factors whose interaction is vital to achieving and maintaining a high employment stability. Our policy should focus on expanding economic activity as rapidly as feasible until we achieve that qualitative state. Specifying an unemployment number in advance does not, in my judgment, add much information to the economic policy decisionmaking process. Suppose, for example, today, we were to choose a 4 percent unemployment rate goal but when we got into the vicinity of 4 percent we found that we could in fact achieve and sustain an even lower unemployment rate. Under these conditions we would clearly attempt to reach the lower rate. In that instance the 4 percent objective would not have served a particularly useful purpose. On the other hand, suppose we discovered significant pressure with respect to the utilization of resources when we reached 5.0 percent, just to choose a number. It would be clear at that point that an effort to reach a 4 percent unemployment rate would create destabilizing economic forces which eventually could very well push the economy into a recession and send the unemployment rate back up. However, if we were committed at that point to achieve a 4 percent unemployment rate it would be more difficult to resist the pressures to do so. It, therefore, seems far preferable to strive to achieve the qualitative condition of full employment as quickly as we are able to do so. Having a specific numerical objective in advance does not seem to me to be especially helpful and it might make the achievement of stable full employment somewhat more difficult.

The approach incorporated in H.R. 50 relies heavily on the ability of the economics profession to plan or to outline fairly precisely the path that must be followed to achieve and then maintain full employment. I find the thrust of this argument troublesome. It presumes a detailed forecasting capability which is far beyond any realistic assessment of the present or immediately forseeable capability of the economics profession.

A modern industrial economic system based even partly on market phenomena is so complex that any model or statistical abstraction, no matter how complex, is still a gross oversimplification of the dynamics of the system. Models can never expect to achieve more than very rough approximations of the dynamics of the real world. These approximations are most useful but they fall significantly short of the analytic and forecasting requirements of the approach envisioned in H.R. 50.

Moreover, try as we might, it will be difficult to separate political considerations from the planning process. The Federal government would sanction certain growth paths for total demand which would presumably be consistent with the unemployment targets. This goal related projection, however, is almost certain to go wrong. For clearly, whatever comes out of the straight-forward projection based on average historical relationships will surely be considered inadequate by the political process setting the goals. Instead of basing the targets on the average expectation cranked out by the analytical process there will be a tendency to adopt more optimistic and, by definition, less probable sets of projections as targets or as standards of performance. This would place the goals in the outer range, if not at the absolute extremes, of real growth, employment and inflation possibilities.

Consequently as real events unfold, the economy will have been found to have fallen short of the desired levels of production, employment, income, inflation, etc. This in turn will mean that either the goals will be abandoned or the government will intervene further in the system to correct the "fault".

Implicit in H.R. 50's specification that the Federal government set not only economic goals but the particular policies that will get us there, is the presumption that our theoretical underpinnings enable us to construct and successfully follow such programs.

Since such a view is unrealistic what would H.R. 50 mean in practice? If, the detailed policies fail to achieve the specified goals, as a practical matter public service jobs become the means to achieve the 3 percent unemployment goal. For this reason I believe we must examine the impact of expanded public service employment as a means of achieving our goal of full employment.

On the basis of experience with moderate size public employment programs, numerous studies have concluded that public jobs program do not ultimately create significantly more jobs than any other type of current policy, whether it be in the form of tax cuts or increased government spending for other purposes. In fact, the evidence suggests that after two years as much as 90 percent of those public sector jobs that were funded would have been created anyway through ongoing state and local efforts. What happens is that state and local governments substitute federal funds for their own funds as they expand. The additional federal money enables state and local governments to lower taxes or raise them less than they otherwise would have. In this sense, a good deal of public employment funds indirectly becomes a form of general grants to state and local governments.

We do not have experience with the large scale public employment projects contemplated in H.R. 50. Millions of jobs would have to be funded under these programs in order to reduce the unemployment rate as measured statistically to 3 or 4 percent.

Such large scale public employment programs would entail a major increase in the number of workers committed to relatively low productivity jobs in the public sector. This would certainly slow the rise in overall productivity and hence in our standards of living. The programs would not contribute to the capital investment required to create the productive jobs needed to regain a sustainable high employment economy. Indeed the heavy budget costs of funding the programs would likely interfere with capital investment and the badly needed increases in job supporting facilities. In short, we would be creating the types of problems which confront other countries where bloated public sector employment has become a serious impediment to growth, progress and stability. This approach has proven to be shortsighted and counterproductive.

There is no question that extremely high unemployment and the hardships associated with it is one of the most serious problems currently confronting this country. It is important however in devising policies to examine the nature of the problem carefully so that the remedies are applicable and do not focus on something other than the real problems. There is, for example, an implicit notion in many unemployment reducing programs that unemployment is a stable and unchanging condition for those who are unemployed. In reality our labor markets are characterized by an extraordinary amount of churning, involving entry and exit from the labor force and moves between jobs, occupations and geographic areas. The statistics suggest that unemployment is more generally of relatively short duration and experienced by a significant proportion of the labor force.

There were close to 8 million unemployed on average every week during 1975 and there are likely to be perhaps 7 million this year. But it is not the same people who are out of work month after month for periods of years. If that were the case very specific economic policy remedies would have to be directed towards that problem. But the problem is quite different. On average, based on past experience, we can estimate that approximately 25 million different people experienced one or more spells of unemployment in 1975, and perhaps one-third or more of these experienced at least two spells. On average each spell of unemployment approximated two months and a large proportion of the spells was of very short duration—several weeks. Thus the approximately 400 million total weeks of unemployment experienced by our average 93 million work force in 1975 was characterized by a significant amount of turnover within the unemployment rolls.

Clearly if we are to confront appropriately the problem of severe unemployment it is important to recognize it for what it actually is. Public service jobs are not a sensible solution for short duration unemployment. In fact, by taking a worker out of the labor market it may actually inhibit the normal processes of job search and productive reemployment.

Although most unemployment is characterized by high turnover and spells of short duration some is of a severe and prolonged nature. When an individual who has been specifically trained to find another job that uses those skills. When skills are not readily transferable there is a structure problem that can be very painful to the worker caught in that position. It is sometimes said that programs targeted to the long term unemployed might be used to eliminate some of this type of unemployment. However, there is no reason to believe that public jobs can be easily matched to the precise skills of these displaced workers. In fact, a public employment job that does not utilize these skills simply delays the readjustment process—the job training or relocation that must take place for the worker to become productive again.

Taking all of these factors into account unemployment insurance coupled with job training programs for the long-term unemployed would appear to be the most appropriate response to our problem of excessive unemployment. It cushions the financial hardships associated with unemployment, allows time for job search, relocation and retraining.

Our goal should be to achieve the reestablishment of a stable economy, the generation of productive job opportunities and a rising standard of living. Under normal circumstances this problem is difficult enough. There are some compelling reasons, however, for believing that it may be more than normally difficult in the next several years. The employment of our labor force in productive jobs in the private sector of the economy will require a very large increase in capital investment. Not only must we provide the tools, the plant and the equipment, we must also provide the investment required by the environmental and the safety legislation which is already on the books and by our energy objectives.

The studies of capital requirements are not precise The basic data on our present capital stock or capacity are among the weakest of our economic statistics. Furthermore, a long series of assumptions and qualitative judgments are required to estimate future capital requirements. Taking into account our employment, productivity, environmental, safety and our energy goals business investment would have to average 12 percent of GNP from 1975 to 1980. By comparison between 1965 and 1974 investment averaged 10.4 percent of GNP. This sounds like a small change but it actually would represent a large shift in the allocation of resources. Real GNP in 1976 will be somewhere in the neighborhood of $1260 billion, and one percentage point would be about $12 billion. But that one percentage point is equivalent to an increase in business investment of about 10 percent and that would have to come on top of the normal cyclical increase in investment which would occur in any event. And it would have to be maintained for five years. Investment is unlikely to exceed 10 percent of GNP in 1975 and 1976 so that investment ratios well in excess of 12 percent will be needed in the next four years to put the required capital in place.

Without the investment required to produce the jobs and the productivity growth we will not achieve the increasing standard of living to which we have become accustomed. Indeed, short of fundamental and improbable changes in our institutions or in our patterns of behavior, inadequate investment could prevent the attainment of high-employment conditions and price stability even if we were to accept the lower rates of productivity increases.

Mr. Daniels. Mr. Greenspan, I want to thank you for your comprehensive statement. If I may direct your attention to page 3 of the statement, you discuss the importance of employment being productive. Please tell me what your definition is of productive jobs and nonproductive jobs.

Mr. Greenspan. First of all, Mr. Chairman, virtually any human effort has some productiveness in it. An activity which one can say is truly without any value whatsoever is very rare.

Consequently, in that sense, the term productive is a relative term, whose importance is partly in relation to the issue of the wages paid. It is very important for us to recognize that wages are basically paid out of production.

Wages are obviously a mechanism by which claims to real goods are transferred. As a consequence, I think the term should be used in relationship to the nominal wages paid.

In evaluating our concepts of full employment, and specifically the role of public service employment as jobs we often disregard this concept. Even though all public service jobs presumably will produce some goods and services of value there is a tendency for the wages paid to be far in excess of the actual output of those jobs. As a consequence there is a tendency to fail to recognize, as I pointed out in my statement, that the production on real income produced by other people, largely in the private sector, is being transferred to the public sector to make up the difference.

Perhaps an example would help clarify this issue. In a situation in which half of all of the work force was in very low productivity public service employment jobs, and the people were paid the same wages as in the private sector, then, in effect, the people who are producing in the private sector would be sharing half of what they turned out with the people who are working in public service employment.

So, the concept I am trying to communicate is that when we think of productive employment, it is generally implicit that we really mean jobs which are producing close to the national average on output-per-manhour.

Mr. **Daniels.** Dr. Greenspan, today we have approximately 300,000 to 320,000 people employed under the CETA programs. That is costing the U.S. Government approximately $300 million. Would you say these people are engaged in productive employment?

Mr. **Greenspan.** I would say that the bulk of them probably are, but largely because, as I point out earlier, that they are being put in employment slots that would have been created in any event by State and local governments. Because a large part of these job slots would have been required in those particular localities, there is a strong presumption that these jobs have been sanctioned as valuable by the citizens in those particular localities.

Mr. **Daniels.** If your last statement is true then, why does the Labor Department and the administration object to rehirees?

Mr. **Greenspan.** The question really amounts to——

Mr. **Daniels.** They are doing productive work, then what is the objective of rehiring laid-off employees?

Mr. **Greenspan.** You have to distinguish between the purpose of the programs and their actual effect. The purpose of the CETA programs has largely been, in effect, to add to the total jobs involved, and the rehiring rules relate to that original purpose or objective. Even though the evidence indicates that, for number of reasons which are quite technical, the jobs are being filled in sort of the regular slots, the purpose of the legislation was to actually something other than that.

In that respect the CETA program tends to turn out to be a form of grants to State and local governments.

Mr. **Daniels.** Dr. Greenspan, on page 7 of your statement, you state, "the evidence suggests that after 2 years as much as 90 percent of those public sector jobs that were funded would have been created anyway through ongoing State and local efforts"——

How do you reconcile your statement with the Department of Labor, and the HEW Subcommittee on Appropriations, that the percentages of those reemployed under CETA public service jobs who are rehirees is only 45 percent?

That statement was made on February 2nd of this year before the Appropriations Committee.

Mr. **Greenspan.** There is a difference between the concept of rehirees and the issue which I am discussing here. First, despite the very stringent financial problems total employment in State and local governments in general has continued to expand at a fairly strong rate—by about 5 percent in 1975. Because State and local government employment normally increases some of that normal growth tends to be funded by these types of Federal funds.

The distinction is really not between rehiring those who were originally employed and subsequently laid off. The important distinction is between those who would have been hired in any event but financed through local resources instead of through the CETA program.

Mr. **Daniels.** Let me refer to page 5 of your statement where you say that H.R. 50 requires "detailed forecasting capability which is far beyond any realistic assessment of the present of immediately foreseeable capability of the economics profession." What is the alternative for establishing some models to follow?

Mr. **Greenspan.** Mr. Chairman, I think that the economics profession in the last 15 years has made extraordinary progress in refining our techniques and our capabilities.

We are now able to do a large number of things in significant detail and with a greater degree of accuracy than ever before.

But my experience over the past 25 years in building very elaborate and complex models has made me acutely aware of both the advantages and the limitations of our forecasting capabilities. The forecasting capabilities required by the standards specified in H.R. 50 in my opinion exceed by a considerable margin the performance that we as a profession are realistically capable of providing.

Mr. Chairman, I have gone through these types of exercises for many years in very great detail and I do not believe that we as yet have the tools to do the type of detailed analysis, the type of accurate forecasting that is, in fact, required by H.R. 50.

I would prefer that the situation were otherwise. We work very hard at improving our tools and our techniques and I do not wish to disparage our capabilities because they are very extensive. But the standards which are being set in this legislation are really quite beyond what we are capable of doing.

Mr. **Daniels.** You do not think it can be accomplished?

Mr. **Greenspan.** I would say at this stage, no.

Mr. **Daniels.** Should we not try something new in order to get the economy moving?

Mr. **Greenspan.** I think we know what is required to get the economy moving. Even though we cannot build huge econometric models which will give us exact technical forecasts of the future, we do have tools to confront the very serious problems we have today.

It is important to develop policies which confront the problems which we have, and which have the highest degree of probability of achieving the goals of full employment as quickly as is feasible and in a way which, when we get there, will enable us to maintain these conditions.

Mr. **Daniels.** Well, I am sure you must admit that our economic policies have failed in the past several years when we have had such an unprecedented rate of unemployment in addition thereto an unprecedented rate of inflation.

While there has been some improvement in the past 8 or 9 months, nonetheless, I think we are moving too slowly and a great deal more can be accomplished.

Mr. GREENSPAN. I would certainly agree with you, Mr. Chairman. The results of economic policy over the last numbers of years has scarcely produced results which we should look upon with pride.

Hopefully, we have learned a number of lessons from these experiences and it is precisely those lessons which we should apply in the period immediately ahead.

I do not think myself that this country can afford to go through again the extremely tragic inflation-recession sequence which confronted us 1 year ago. It is terribly urgent that in our endeavor to restore to a state of full employment and prosperity as quickly as possible, that we do not create even worse problems at a later date. It is very important that our policies succeed in the period immediately ahead and that we do not induce the type of secondary consequences, especially in regard to issue of inflation, which would have a highly destabilizing effect upon economic activity in the next 2 years.

Mr. DANIELS. Dr. Greenspan, you are of the opinion that the 3-percent goal of adult unemployment will be achieved in 4 years from the date of enactment, assuming this legislation could be enacted, is unattainable or unrealistic.

On Monday of this week, Senator Hubert Humphrey, coauthor of H.R. 50, stated that several European countries—France, the United Kingdom, Germany, Sweden, as well as Japan—had an average unemployment rate of 1.8 percent through the years 1962 to 1973, while the United States had an average rate of 5 percent.

How would you account for this disparity between the United States and the other industrialized countries?

Mr. GREENSPAN. That, of course, has been an issue which has puzzled economists over the years. Those specialists who have attempted to evaluate it have concluded—but I must say to you it is by no means a final conclusion at this stage—that the turnover or the mobility of our labor force, is far greater than exists virtually anyplace else in the world.

As a consequence, there is far more changing of jobs, or moving around in this country with a resulting significantly greater amount of unemployment merely from these factors. Unquestionably this explains a good deal of the differences because we can observe that the incidence or the importance of long term unemployment is not significantly different in the United States than in most other countries. From what we can judge, the major difference tends to be in the degree of shorter term unemployment. This involves the issues I raised earlier regarding the question of spells and turnover and the like.

As a number of people have indicated, it is not an issue which is explainable in terms of differences with respect to regions and homogeneity of work force. If you take, for example, such labor force categories as white males 20 years and older, you still have higher unemployment rates in the United States than, for example, in the Western European countries for comparable groups.

Mr. Daniels. You attribute then the major difference to the mobility of the labor force?

Mr. **Greenspan**. Statistically, to the turnover of the labor force, that is, to a far greater incidence of unemployment spells of relatively short duration, some of which are the consequence of people moving, job changing, and the like.

Mr. **Quie**. Would the gentleman yield?

Mr. **Daniels**. Yes.

Mr. **Quie**. To what extent has it also been caused by people from southern European nations being a part of the labor force until there is a turndown in the economy, and then they go back to Greece, Italy, or Spain?

Mr. **Greenspan**. Yes, that does explain part of it. But I still think that even if one were to make some allowance for the importance of immigrants in Germany, for example, that their average long-term unemployment rate has been beneath that of the United States.

Mr. **Quie**. Thank you.

Mr. **Daniels**. Dr. Greenspan, do you have any idea of the number of people who are unemployed 15 weeks or more during the years of 1972–75?

Mr. **Greenspan**. Yes, there is a published number.

Mr. **Daniels**. Are those figures available?

Mr. **Greenspan**. Yes, sir. I want to emphasize that these numbers are the numbers of the people who are unemployed as of the time the survey is taken.

There is a somewhat different concept I would like to get to in a minute, but just to read you some numbers: In 1973, the total number of people reporting duration of unemployment in excess of 15 weeks was approximately 800,000 when total unemployment was 3.4 million.

In 1974, the figure was approximately 900,000 when somewhat more than 5 million were unemployed, and in 1975 the figure rose to approximately 2.5 million when somewhat near 8 million people were unemployed.

I might just add that there is a difference between this concept, which we call duration of unemployment of those unemployed at any particular point in time, and the number of people who have spells of unemployment on an average in excess of 15 weeks.

I do not want to get into the technical or the analytical reasons. It seems to be a contradiction, but it turns out that there is a substantially smaller proportion of unemployment in spells of 15 weeks or more relative to the average than there is indicated by these figures.

Nonetheless, I might add that no matter how one cuts it, the real problem exists in long-period unemployment and not in the shorter duration spells. Our public policies should focus more on the people who are out of work for protracted periods of time and not on what for want of a better term would be called the churning or the transitional component of our unemployment.

We have a tendency to think of unemployment as sort of a single problem. It is not a single problem. It is obviously a far different problem for a black teenager in a ghetto than it is for somebody who is out of work as part of a particular transitional change.

But in our statistics we treat these in the same way even though they are really quite different problems which obviously require different solutions.

Mr. **Daniels**. Thank you Dr. Greenspan. I now recognize the ranking minority member of the subcommittee, Mr. Esch from Michigan.

Mr. **Esch**. Thank you, Mr. Chairman. I am hesitant but I think I will go ahead and relate an illustration that was told regarding one of your predecessors.

It relates, I think, probably to the question of to what degree you and your profession have the capability to develop accurate models and predictability.

It is about the man who was the president of a corporation and he sent his personnel director out to find a handicapped economist, one with only one arm.

He sent him throughout the country searching for a year for a one armed economist. At the end of the year, the personnel director came back and suggested that indeed he had looked throughout the country and found very well qualified persons, but could not find one with a handicap of only one arm.

He asked him why he demanded one with one arm, to which the man replied:

> Well, I am just sick and tired of the economists coming in and telling me on the one hand that "This is going to happen, and on the other hand, this is going to happen."

(Laughter.)

Mr. **Esch**. Following that type of introduction, the economists in the presentation that followed, I counted 5 times in which we suggested that, on the one hand, this was going to happen, and on the other hand, this was going to happen.

What you are really saying and the point of that story, of course, is that what you are really saying is that in spite of the capability of your profession, currently you would not feel comfortable having the degree of control necessary to bring about the attempt at full employment as required by this act. Is that right?

Mr. **Greenspan**. Mr. Esch, implicit in the requirements of the act is a statement of specific statistical goals, and a set of policies which will lead us there.

That presupposes that there is a theoretical structure which says, "If you do this, this will happen and if you do this, that will happen." I need two hands to do this.

(Laughter.)

Mr. **Greenspan**. We have found on too many occasions that the relationships which we thought were strong and inviolate and general have broken down.

For example, a very specific case which I think many of you are probably very well aware of: We have had over the years some very reasonably close relationships between money supply and economic activity. On the basis of those relationships it was argued in the early months of 1975, that unless money supply growth accelerated very substantially the recovery which was just then in its infant stage would abort.

Not only did we not get an acceleration in money supply but it turns out in retrospect that it actually started to lag. The economy, as you well know, did not fall into a slump. On the contrary, it accelerated and it is still going rather strongly. In retrospect our interrelationships between money supply and all of our other economic variables somehow went off the track.

As yet we do not know why. Now that happens to be a very fundamental relationship in the processes which would be set up by H.R. 50. If you specify that the Federal Reserve must indicate particular policies which will get us from here to there, then there is an implication both that there is an interrelationship, that we know it in advance and that it is stable enough to base policy on.

At this moment, until we can restructure and understand what it is that went wrong and what is going to happen as a consequence of that, I am not sure, that I could tell you very far in advance what the appropriate monetary policy would be to achieve a specific goal.

Mr. Esch. Related to that, of course, is a question of control, and what degree of control are you going to have, both in terms of the employment policy and in terms of wage/price structure?

What you are also suggesting is that you do not have the capability of determining centrally what controls are necessary.

Mr. Greenspan. Well, in a general economic sense the implication of what controls are necessary, presupposes that we know how they would work, what their impacts would be, and that, in fact, a particular program will achieve what the Congress itself is saying should be achieved. Here again we get into an area of grayness in our conceptual understanding which makes it very difficult to know how you get from here to there.

Mr. Esch. Related to the question, to our last concept, in terms of GNP, and in terms of business investment, some of us on that bill before another committee feel that what we ought to do is to encourage more capital as a means of producing more employment in the private sector, and that, relating to other Western countries suggests that we have less predictability for the private sector in terms of capital formation than any other one.

Would it be an adequate or a desirable policy to encourage predictability for capital formation, or more predictability in the field of capital formation—for example, with a permanent investment tax credit standing over a period of time to encourage capital formation?

Mr. Greenspan. Mr. Esch, we believe that capital formation is a necessary ingredient to restore the type of full employment which would be based upon production jobs and the type of prosperity which we want to achieve.

The administration has put forth a number of proposals directed at this process. There is another latent element upon which our policy is based which we may not have expressed in great enough detail.

One of the major inhibitors of capital investment in this country, and in fact, abroad, has been the degree of uncertainty and concern about the future, both here and abroad. It is important to remove this uncertainty if we can and to thereby contribute to the demand for capital goods and also to the demand for consumer goods.

One of the reasons why the recovery in the recent months has been better than we have projected is that there has been an unexpectedly marked improvement in that vague ephemeral concept which we call confidence.

But one important objective for economic policy is to create a situation in which both incentives and the state of confidence in the future is adequate for private sector decisionmaking, the private sector where people feel that they can buy, as far as households are concerned, people must be able to regard the future with sufficient certainty to be willing to buy homes, cars, or household goods. The business sector in planning facilities which essentially convert liquid assets into fixed assets with useful life of 20 years and more must have some sense or reason to believe that the rules of the game, so to speak, will not be rapidly altered all the time. Without some such state of expectations one has no sense of what type of environment that plant will be producing or operating in 15 or 20 years out.

Mr. Esch. So, you are suggesting not only in terms of capital formation policy, but something which I have termed for lack of a better one, legislation of certainty, that public policy ought to create that situation in which there is legislation of certainty, give predictability over to the consumer and to the potential investor.

Mr. Greenspan. I would certainly subscribe to that.

Mr. Esch. I want to get in, Mr. Chairman, if I might, because I think we are at an interesting point—I have suggested somewhat facetiously that perhaps this committee and all of the congressional committees like to take field trips to find out, and I suggest that this committee, not completely facetiously, ought to go to that country in which they have a policy of full employment.

I think mainland China might help us as a means of examining the full employment policies there. That brought up the point that you emphasized, and that was the relationship to the European countries, that question of mobility, that they have less mobility in the Western countries, and the suggestion that if we delve into the problems inherent in H.R. 50, one of the problems is how can we maintain and encourage a forward mobility of our work force if we had a large number in a controlled employment situation?

I understand that you have a very strong feeling that perhaps one of the problems of our current employment structure, but also one of our real strengths in terms of individual freedom, is the capability for not only upward mobility but the capability to move in and out of the job market and try to find a more desirable way. So it is two sided. Is that right?

Mr. Greenspan. Yes.

Mr. Esch. Related to that also is the question of the long-term unemployed, and I would hope that this committee could examine that very carefully because even though we are at 7.5, we have 19 percent of our young people who are unemployed and who have a tendency to be unemployed.

We have 45 to 50 percent in the city of Detroit today, of our young people, are unemployed. Is it not possible, in terms of public policy, for this country to reach out more effectively into that client group that represents really almost one-third of the 7.5 unemployed?

Is it not possible to reach out to that one client group in a more effective fashion without causing major economic disruption that leads to inflationary pressure in our economy? Why can't Government policy reach out to that one explicit client group, namely, the 14-to-22-year-old unemployed, and especially in terms of minority groups, where we have 1 out of 5, and in minority groups, 1 out of 2 unemployed? Why can't we do something in that area?

Mr. GREENSPAN. Mr. Esch, it is that type of problem which we should focus on. A number of people of course have looked at this problem in great detail. But, as you know, some of our programs in my view, are just dealing with the symptoms.

Some of the youth programs do, in effect, try to absorb as best one can, some of this type of unemployment. However, some of the problem in the teenage area is not wholly a labor market or an economic problem.

There appears to be an educational question as well. Some of this unemployment involves breaking down some of our older traditions of moving from education to apprenticeship, on the job type training, and the gaps that invariably occur as people leave school and then go into the job market.

There is too great a discontinuity in that process. That, I believe, creates statistically a good part of the particular problem.

Mr. ESCH. Over the last year I introduced legislation that would call for a year round youth employment program, funds coming out of the Labor Department and put back in to have those young people get back into institutional programs and co-op programs.

Again, what we face now is the dichotomy, which is a bureaucratic dichotomy that on the one hand you have vocational occupational education, and they are wards of that system until they are age 16 or until they drop out.

Then suddenly they become the responsibility of this committee. Now, why can't we have a system in which we bring together the manpower policy and the occupational education policy, and have our country's youth employment process involve counseling, training, so as to bridge that gap which you are talking about.

Mr. GREENSPAN. Mr. Esch, I am not an expert in this field, so a good deal of what I am communicating is that which I have heard from others. One should look at this problem as an integrated education employment problem, as distinct from one or the other. There is no question that however one looks at it, this is a large part of the problem.

Second, as you, I am certain, are aware, a large number of economists, in fact, I have asked a number of them, have tried to find means by which some differentials, perhaps in the minimum wage, could be instituted. The evidence does suggest that there is some unemployment created because some teenagers cannot earn the minimum wage and are in that sense cannot compete effectively in the job markets. I think the data do show that over the years as we have increased the minimum wage that there has been a widening differential between teenage unemployment and adult unemployment. There are obviously many difficulties in implementing policies in this area.

But to go back to your original point, there is no doubt that this is the type of problem we should be focusing on in some detail, but recognizing that in the process we must bring together into one analytical sort of process, both the educational and the employment characteristics of our teenage population.

Mr. **Esch**. In Michigan, I recently did a study that shows that there are 21 laws or regulations that provide a disincentive for the employer hiring a young person.

Perhaps we ought to try to develop policies that will encourage the employer to hire a young person, rather than disencourage them from doing the same.

Mr. Chairman, I do not want to take any more of the time. I wanted to understand clearly that you do believe that it is possible, both in terms of policy but also in terms of specific programs perhaps to reach out to specific client groups more effectively, and perhaps to learn more, and without going into a total restructuring of our labor policies.

Mr. **Greenspan**. Yes, sir.

Mr. **Daniels**. I recognize Mr. Hawkins, Congressman from California, and the author of H.R. 50.

Mr. **Hawkins**. Thank you, Dr. Greenspan. I think your statement is a very thorough one. However, it seems to me that it overlooks certain basic points.

First, on page 1 of your statement, you said that H.R. 50 established a single numerical goal for full employment. Are you not really ignoring some of the provisions in the bill? For example, on page 6 of the bill, section 101, says that "it is the purpose of this title to declare the general policies of this Act to provide an open process under which annual economic goals are proposed, reviewed and established, and to provide for the development of long range development," and so on.

Even more specifically, on page 9 of the bill, about midway of the page, beginning on line 13 of page 9 it reads, "plan"—that is a plan which the President annually will submit along with his economic report, "the plan shall propose in quantitative and qualitative," and I emphasize qualitative, "qualitative terms for the number of years feasible, long-term national goals related to full employment, production, purchasing power and other essential priority purposes, and the major policies and programs, including recommendations, to achieve such goals and priorities."

In no section of the bill do we deal with a single numerical goal, such as you have referred to on page 1, except that in connection with a full employment bill—this is only one phase of the bill—a particular target, a target of 3 percent is specified.

You are relating, it seems to me, that conclusion not to a careful reading of the bill, but simply to one section of the bill relating to the employment aspect of full employment and not to the other common goals specified in the bill relating to the production, purchasing power, and the handling of domestic priorities.

Don't you think that is an abstraction which is rather narrow in its approach and does not really look at the bill in its total thrust?

Mr. **Greenspan.** I would defer to you, Mr. Hawkins, in that. I think in the context of the way you are stating it, I would certainly think that that is perhaps raised in a manner which implies that that is the sole purpose. Obviously it is not.

Mr. **Hawkins.** I would suggest that the authors of the bill certainly do not intend that to be a single numerical goal, and just leave it at that. What you have done, it seems to me also, is that you have ignored other sections of the bill.

First of all, the bill does emphasize monetary and fiscal policies as a major thrust. Then beginning on page 22 of the bill, begin to deal with supplemental programs and only then as a terminal, or let's say, a program of last resort, do we deal with the question of public employment.

That, may I emphasize, is not altogether public employment. It could be employment that would be semiprivate or certainly nonprofit employment as well.

Now, it seems to me that in the emphasis you placed on public service employment, monetary and fiscal policies, domestic and international constraints on the Federal budget, countercyclical employment as an aid to State and local governments, and the whole range of programs which might include a youth program * * * Have you not assumed that all of these programs are therefore doomed to failure and that this becomes not a policy and a planning bill, but that it becomes a public service employment bill? Now, have you not assumed that the private sector has failed, that public policies have failed, and that specific programs which might deal with recurring problems have failed in the manner in which you deal with this as a public employment bill?

Mr. **Greenspan.** Yes, Mr. Hawkins, actually were I to comment on every specific section of the bill, I am afraid I would be taking far more time than you would want me to.

But in a general way, I would say that if you were to tell me that this particular plan would go into effect as of now, and that 4 years from now we would be required to have an overall unemployment rate of 3 percent as a consequence of that, the probability that any combination of the other sections of the bill would achieve that level would be exceptionally low.

I would therefore conclude that the operative provision to achieve the mandated goal then is effectively the public service or public service plus nonprofit employment projects.

So, in answer to your statement I would not say that it is a failure of the private sector. I would stipulate that, aside from the public service job category, this policy has a very low probability of achieving the goals of the bill. It is a statistic we are attempting to achieve, and in that sense, the unemployment rate as measured is unlikely to be anywhere near the stipulated level within 4 years with these particular provisions.

I would never say anything is impossible because definitive statements in economic forecasting are far too often incorrect. But my best judgment is that the probability would be exceptionally low.

Mr. **Hawkins.** Are you rejecting completely the idea of having goals or targets towards which planning is relating?

Mr. Greenspan. No, not at all. As I indicated in my opening remarks, I think it goes without saying that we wish to achieve full employment as quickly as possible and in a manner which is sustainable over the longer run.

Now, the question really gets down to what numerical figure most appropriately represents full employment, and this has been a matter of substantial debate in the academic fraternity.

I do not think that is a particularly useful piece of information. I am not sure what one would do differently with respect to policy if one had, say, 3 percent as a goal or 3.5 or 4 percent as a goal.

Now, obviously, if the goal for full employment were 10 percent, clearly policies would be rather different. But in the area of, say, 3 to 5 percent I am not certain what difference it would make with respect to the policies we implemented.

Mr. Hawkins. It is not true that this administration has made projections reaching into 1980; that they have, in effect, set certain specific targets whereby they have indicated what unemployment rates would prevail in any one particular year between now and 1980. It seems to me that it is only in the quality of that projection that we differ, that is, the 3 percent is no different from a projection of 5 or 5.5 percent by 1980.

Mr. Greenspan. Mr. Hawkins, I would distinguish between a goal and a projection. The Budget Control and Impoundment Act of 1974 specifies that the mandates that specific underlying economic assumptions which underlie the four to 5 year mandated budget projections be made explicit.

Now, we have specifically indicated that those numbers are not goals or objectives. They are sort of an average type of projection which is made for the purpose of assisting in the evaluation of the receipts and expenditure projections that appear in the budget document.

We have never specified a numerical goal statistic that we thought desirable to achieve. The President has said on numerous occasions, however, that the objective is to achieve a state of full employment.

He has never attached a specific number to it—I think because we all know what we mean in a general way. We want a high and a sustainable level of employment, and an unemployment rate which is not only low but low in the sense that it does not contain within it the seeds of a new recession, and hence, a higher future unemployment rate.

Mr. Hawkins. Mr. Greenspan, what do you define as a state of full employment?

Mr. Greenspan. I would say generally one in which everyone who wants to work can find a job. Now, there are differences in providing an exact definition because, there are issues of frictional unemployment.

It does not necessarily mean that one will find a job immediately. And whether one finds one in 1 week or 3 weeks, for example, makes a very big difference on the measure of unemployment rate.

But I would say qualititatively that full employment means that there are job opportunities being created year after year so that people who are coming into the labor force find work readily in the types of jobs in which they have particular skills, and that the economy is not continuously disrupted by sharp periodic rises in unemployment.

Mr. **Hawkins**. What you are saying is, with the exclusion, let's say, of such a factor as structural unemployment, that the state of full employment which you speak about is one in which every person who is able and willing to work would be provided a work opportunity. Is that correct?

Mr. **Greenspan** [continuing.] Would be able to find a particular job. The question of provided presupposes by whom, and I am saying that——

Mr. **Hawkins**. Well, let's say would be able to find. Let's say the individual is not able to find work? Then what happens?

Mr. **Greenspan**. Then you have achieved less than the goal you had wished to achieve. Now, let me say that it is not easy to achieve a qualitative goal of that sort.

As we move up toward a level of full employment we may find, that certain imbalances begin to occur in the system, which indicate that it is going to be very difficult to sustain that level of employment. Then you would be confronted by a very difficult policy dilemma and you may not be able to reach the immediate goal easily at that point.

You may be able to meet it for a very short period of time, but only with policies which actually undercut the more important longer term full employment goal. Although we want the unemployment rate at the lowest feasible level it serves nobody's purpose to have it go down for a short period of time and then rebound perhaps to even higher levels then when we started.

So we must view the concept of full employment both in terms of job availability for those who wish to work, and also as a condition which can be achieved over the longer run as well.

Mr. **Hawkins**. Quite apart from that, it seems to me that you have limited your definition by saying that full employment is a state in which every individual willing and able to work would be provided a job, but along the way, inflation becomes a greater problem and, therefore, the goal that is promised somehow is made secondary then to what at any particular time the administration or the Council of Economic Advisors determines is the greater problem.

So, your goal is meaningless depending on the discretion of the Federal Reserve System and on the Council of Economic Advisors.

Mr. **Greenspan**. Mr. Hawkins, I would not look at it that way because I do not think that there are, in a sense, twin goals—you know, one of inflation and one of employment.

The reason why inflation is a danger to our system, in large part, is because it causes gross instabilities which lead to further unemployment. So, what I am saying is not that it is inflation——

Mr. **Hawkins**. Does it ever work the other way? Would unemployment lead to inflation? Now should we deal with the unemployment problem as a means of avoiding inflation, which the empirical evidence over the last 2 decades certainly suggests?

Mr. **Greenspan**. It depends to a very substantial extent, Mr. Hawkins, on what one thinks the basic underlying causes of inflation are. The issue you are raising is, I might presume, the idea that rapid increases in employment and production will tend to reduce unit labor costs and that you would therefore tend to put downward pressure on prices.

If that is all that is happening, I would agree. The evidence suggests that the greater the rate of growth and production other things equal, the slower tends to be the increases in unit labor costs.

However, I think that inflation originates less from that phenomenon per se than from fiscal and monetary policies and the financial side. Perhaps this is being a little too simplistic, but I would say that inflation largely occurs when the growth in the money supply consistently exceeds the growth in productive capacity.

In a sense, it really is more money chasing fewer goods. While that would scarcely be a description of the inflation process in the short run I think that over the longer run that is, in fact, the way it works out.

So that the real issue involves imprudent fiscal and monetary policies, eventually leading to the type of inflationary instabilities which are a grave threat to the maintenance of full employment. I would never specify that there are joint goals or tradeoffs because I do not think that is an appropriate way of looking at it. I think our basic goal is the maintenance of high prosperity, high employment, high standards of living, all internally consistent concepts.

What we are against are those elements in the economy which threaten to undercut these objectives. These are occasions when our policies will do that but this does not mean that the goal of full employment is secondary, or something which can be discarded. On the contrary, what we are in fact saying is that those policies actually will contribute to a deterioration of our capacity of achieving full employment.

Mr. HAWKINS. Dr. Greenspan, I conclude from what you have said that what we need is a coordination of policies; not policies that are in sharp contrast to each other. Our economic policies today along with manpower policies, housing policies, and so forth, need the type of coordination which is required in H.R. 50, and that these policies cannot be treated in isolation, and that there is not a single evil of inflation, a single evil of unemployment, but that these can somehow be integrated.

I would think that a careful reading of H.R. 50 would suggest that is exactly what we propose, as opposed to current policies which have been in operation, let's say, specifically since 1969, these uncoordinated policies have mismanaged the economy and have produced at least two distinct recessions, which have brought on the greatest inflation since the Civil War and the greatest amount of unemployment since the Great Depression, because they were uncoordinated as opposed to the coordination of these policies in H.R. 50.

Now, I fail to see the distinction that you are making in defense of current policies, You admit those policies have badly mismanaged the economy, as opposed to the improvements that we suggest of bringing these policies together in some type of coordination.

I do not see how you can defend the current policies and the continuation of them when you say that we have learned something.

What have we learned? What do we intend to do in the years ahead that is different from what you have been doing since 1969?

You admit that we cannot afford another recession, which I think is something which all of us are dealing with today. That is the reason we are talking about H.R. 50. Now, what is it that you intend to do in the future that you have failed to do since 1969?

Mr. **Greenspan**. First of all, Mr. Hawkins, let me expand——

Mr. **Hawkins**. When I say "you," I am saying it in a broad sense.

Mr. **Greenspan**. Let me first expand the time frame in the sense that I think that the policy successes going well back into the 1960's and before have been few. Policies have been poor going well back before then. So I would scarcely start in 1969. The issue in my view is not the failure to coordinate or to integrate.

There are very substantial institutional arrangements and ad hoc relationships that go on within Government which effectively attempt to coordinate great numbers of policies. I do not think that one can say that the problems that we have had are largely the consequence of lack of coordination.

In many instances the policies we implemented were just wong. Coordination would not have made any difference. When you are wrong, coordinated policies are just as bad, if not worse than mistaken but uncoordinated.

In fact, they may even be worse. One of the things we have learned, Mr. Hawkins, is that the frenetic policy swings of recent years have contributed to a substantial increase in degree of uncertainty with respect to governmental policies, as Mr. Esch quite correctly pointed out.

I think that an important goal of economic policy should be to attempt to focus policies in a longer term context. Unfortunately there has been a far too prevalent tendency in the past decade of confronting problems and short-term crises with short-term solutions. Invariably, these policies have led to undesirable secondary consequences which we again proceeded to deal with particular short-term policies.

Now, I would certainly applaud any attempt to rationalize or to integrate our policies in a longer term context. Our budgetary policies for example, must be placed in a long-term context.

There is no question that governmental policy must focus in the longer term context so that we know where we are attempting to go. While I may well disagree with the numerical goals, obviously one must have a goal. My argument is largely that goals must be defined in a way which are operationally useful. Not only must we specify the type of economic policies which are acceptable but more importantly, we must recognize the limits of our knowledge—where it is useful and where it is not.

While I could very easily subscribe to many of the goals and policies you are specifying, the attempt to refine the degree of specific policymaking associated with specific goals in my view presents us with a mandate for which the tools are inadequate.

Mr. **Hawkins**. I have just one final question which concerns the youth unemployment problem which you have addressed, I think, in answer to Mr. Esch. Would you agree that this should be carefully coordinated or integrated with other policies and with unemployment in general? Would you say that youth unemployment is, for example, related to unemployment in general, and that youth unemployment, due to the unemployment—may be related to the unemployment of the head of the family, for example. Would you say there is a relationship between education and the dropping from school of a million or so teenagers every year?

Do you feel that dealing with this unemployment in isolation is not really the answer to the problem of unemployment, but that it is much larger than that.

Certainly the problem of unemployment must be related to monetary and fiscal policies and with a lot of other problems as well. While we may certainly support, and I think all of us do support the idea that such programs should somehow be related to overall economic policy and objectives rather than treated in isolation. In fact, Mr. Meeds has a very excellent bill which we are going to be considering in the near future.

Mr. **Greenspan.** I would certainly agree with that.

Mr. **Hawkins.** Thank you very much.

Mr. **Daniels.** I recognize the gentleman from Minnesota, the ranking minority member of the committee, Mr. Quie.

Mr. **Quie.** Thank you.

Yesterday, Mr. Greenspan, some environmentalists and representatives of railroads came into see me about Lock and Dam 26. One of the things that struck me is that they urged that an environmental impact study be conducted.

They said it would take 3½ years to do the studies. I told them: "Well, three and a half years seems an awful long time to study the question of whether we should replace Lock and Dam 26 on the Mississippi River."

They said: "No, with the complexity of the problem, it would take that long." Now it seems to me that Lock and Dam 26 is a lot simpler than the whole national economy and the Federal Government's relation to it.

I know you have 30 days to come up with your plan and the Governors have 60 days to have all of the citizens come in and give their views and give a recommendation back, and the Federal Reserve Board has 15 days after they get that plan.

I know your comments to the effect that the state of the art is not sufficient, but you went ahead and tried anyway, just as the state of the art is not sufficient in environmental impact studies either.

How long do you think it would take to conduct that study so that it would be a credible work so the Federal Government could put its name behind?

Mr. **Greenspan.** Mr. Quie, as you know, we have very significant computer capabilities. I do not think the problem, strangely enough, is the time frame involved. That does not mean that everyone will not be burning the midnight oil if this legislation is enacted.

If I seriously believed that extending the time frame would make a major difference in the analytical capability that certainly would be something we would want to look at.

Obviously it is a very short period of time, but the problem is not the amount of time because one can clearly gear up for the process.

My major problem is with our capacity to come out with a sufficiently accurate product to address the problem, whatever the time frame.

Mr. QUIE. So you think within 90 days you could put together as accurate a job as you could in 6 months?

Mr. GREENSPAN. No; in 6 months the job would be better, but the additional period is not going to make that much difference.

Mr. QUIE. OK.

Let me also ask, in section 107 you spoke to the entire inflation policy, and then item No. 7, subparagraph No. 7, you make recommendations for administrative and legislative actions for reasonable price developments.

I notice there is not anything on wage stability in there although there is encouragement to labor and management to increase productivity. I expect that may be indirectly related in some way there.

Do you think that there is anything you need that would not be given you to use if you are going to get into this to bring about anti-inflationary policies?

Do you think there is any shortcoming in the legislation not giving you the opportunity to work out policies?

Mr. GREENSPAN. You are refering to various wage restraint and incomes policies?

Mr. QUIE. Yes.

Mr. GREENSPAN. Our experience with these type of policies in actually doing what they are supposed to do has not been very successful as you know. This has certainly been true not only with the United States but with other areas of the world in which it has been tried.

So that even were those policies included within the body of this legislation, I would still stand with my original statement with respect to the infeasibility of achieving the particular goal in the period required, short of a massive public service employment program.

Mr. QUIE. OK.

One thing that strikes me about the legislation is that some of the studies, it seems to me, are ones that the Congress could conduct. For instance, on the question of youth employment, one of the problems is that the policies that the legislative body has set—it seems to me we can hire as good economists as you could down at the executive branch. What is your feeling on that? Is there something unique about the executive branch that makes you more capable of doing this than the legislative branch hiring?

Mr. GREENSPAN. Nothing that I know of, Mr. Quie.

Mr. QUIE. OK.

Thank you.

Mr. DANIELS. I now recognize the gentleman from the State of Washington Congressman Meeds.

Mr. MEEDS. Thank you very much, Mr. Chairman. I apologize Dr. Greenspan for not being here to hear your initial presentation, but I have had an opportunity to get through your testimony very hurriedly.

I certainly agree with the statement which you made, "One must have a goal otherwise you do not know where you are going." That is a direct quote. I agree with that.

Under this bill, we set a goal of reaching 3 percent unemployment over a 4 year period, which really amounts to a 5 year period because of the time of passage of the act, and such things as that, which brings us into probably 1981.

We set that as a goal. What is the goal of this administration for unemployment figures by 1980 or 1981?

Mr. GREENSPAN. Mr. Meeds, the administration wants to get the unemployment rate down as quickly as is feasible, to as low a level as can be sustained over the longer run.

Now, the reasons I put it in those terms is that I do not know how to convert that statement to a number. As I indicated earlier, the determinants of the level of unemployment and its full effects on how the economy is functioning generally, really requires that you be closer to that level in order to see what is happening. If you ask me right now to define what the economy in all its key respects would look like sometime in the future, at 4½ percent or 3 percent unemployment or whatever, I would be hard pressed to give you a fully detailed analysis. Our capability to evaluate the full consequences of, let's say, a 4 percent unemployment rate will be much greater when we are at 5 percent than it is from where we are today.

Beginning from where are are today I do not know, and I do not know anyone who could give us a sound view of where we will begin to run into a situation where it will be difficult to sustain the unemployment rate.

It is not necessary to know that answer at the moment because we do know the types of procedures and policies which will move us as rapidly as we can in that direction.

Mr. MEEDS. If you will pardon me for interrupting, it seems to me that what you are saying is that we let things happen to us rather than doing things, and then if the things that happen to us work out all right, then it is OK.

But if they do not, something is wrong. This is what I thought, why I was in so much agreement with you, that otherwise you do not know where we are going.

I really hate to ask you to oversimplify. I know these things are very complex, but maybe we should start from here: is the present unemployment rate under the conditions we are now facing, satisfactory?

Mr. GREENSPAN. I would say no unemployment rate is satisfactory if we could find a stable level of unemployment which is less than that.

Mr. MEEDS. Do you feel that 5 percent is a stable unemployment rate that we can find and achieve on a stable basis?

Mr. GREENSPAN. I certainly hope not. I certainly hope we can go lower than that.

Mr. MEEDS. So, your goal would be below 5 percent?

Mr. GREENSPAN. No, my goal at this point would be to move as quickly as we can towards that area, and at this point I do not know where one stops. We will continue until we see very clear signs that we are getting to areas where it is unstable. Where that is, we do not need to know at this moment.

In other words, when we are driving to a city 120 miles away and we have a street address, we do not really have to know where that street is until we are close to the city. That does not mean we do not know where we are going.

Mr. **Meeds.** I was going to say we should not oversimplify what you just did.

Mr. **Greenspan.** I am sorry about that.

Mr. **Meeds.** What I am really trying to get at is that it seems to me that if you have a goal, it cannot simply be described as doing the best we can.

That is what you are telling me, doing the best we can. There is simply no way to say whether you are successful or whether you failed under those circumstances.

Mr. **Greenspan.** No, I think there is, Mr. Meeds. When you talk about goals, you have to break them down into subgoals. Our generalized goal is in fact full employment, in the general way we have been discussing.

Policies right now are in a certain sense subgoals. We are so far away from where we want to be that our policies would not be different right now, if our unemployment goal were 3 or 5 percent. In that sense the policy actions we would implement today are independent of where that goal is, provided it is somewhere under 5 percent.

Mr. **Meeds.** Let me ask you this then: recognizing the distinction which you made between goals and projections, which I also agree with—I think there is a distinction—we had then indications of projection from yourself and others in the administration, that unemployment in this country might well not be below 7 percent in this decade. Do you recall that?

Mr. **Greenspan.** Certainly not by us, sir.

Mr. **Meeds.** We had some projections about 6 months ago, as I recall, that indicate that we might not, that we might well not reach unemployment levels below 7 percent.

Mr. **Meeds.** Would you say that would be an unrealistic projection, if that is the case?

Mr. **Greenspan.** I would certainly say it would be a situation which would be clearly undesirable. Would I also say it is an unrealistic projection?

Mr. **Meeds.** Yes.

Mr. **Greenspan.** I would certainly say it is an unrealistic projection.

Mr. **Meeds.** It is unrealistic pursuing the present economic policies which this Nation is pursuing to support that we will be under 6 percent in 1980?

Mr. **Greenspan.** I would certainly say that a forecast of a rate of unemployment of under 5 percent is a highly probable forecast.

Mr. **Meeds.** Then, is it unrealistic to say that we might well be under 5 percent?

Mr. **Greenspan.** By when?

Mr. **Meeds.** In 1980, pursuing the present economic policies.

Mr. **Greenspan**. The implication, however, Mr. Meeds, is that the key determinant, if not the total determinant, of what this unemployment rate would be are our economic policies. I think that we must recognize——

Mr. **Meeds**. What I said was, assuming that we are pursuing the same economic policies. I hope that we are not, but assuming that we are.

Mr. **Greenspan**. But, you see, there are other things involved which are in many respects far more important. What type of world economic environment are we functioning in? What are the characteristics of what is going on in the private sector and a number of other things.

We have a tendency to think that it is governmental economic policy which creates the projection. It is only a relatively small part of it, so that I would not by any means say that, if we were to follow the same policies, whatever they were defined to be, we, therefore, will say something about what the projection would be.

I would need far more detail than that to meet the same——

Mr. **Meeds**. These same things, and these same assumptions went into the question before that, at 6 percent, did they not?

Mr. **Greenspan**. Yes.

Mr. **Meeds**. And you did not appear to hesitate to answer that you thought that was unrealistic?

Mr. **Greenspan**. The reason I did not——

Mr. **Meeds**. Why do we reach this resistance between 5 and 6 percent?

Mr. **Greenspan**. No, it is not that it is resistance between 5 and 6 percent. It is that you would have to have an extremely pessimistic point of view with respect to a number of outcomes outside of Government policy area to get a figure above 6 percent. I think it is a low probability.

Mr. **Meeds**. That same set of factors does not exist with regard to between 5 and 6 percent?

Mr. **Greenspan**. It exists, in the same sense, but the probability is different. My best estimate now, if you want a projection, is that we will be well under 6 percent. We may even be under 5 percent in 1980, but that date is sufficiently far ahead so that the forecast is subject to a substantial degree of uncertainty. The uncertainties also increase as we move that level of unemployment rate down.

Mr. **Meeds**. So, we might well be talking about a difference between the goals of this bill and your projections of perhaps 2 percent unemployment. Is that correct?

Mr. **Greenspan**. I would not want to specify a number at this stage, because I could not honestly tell you where the differences are. If you ask me what is the probability that we will be at 2 percent total unemployment in 1980, I would say that the probability of that is small.

Mr. **Meeds**. Let me go to another subject.

Mr. **Hawkins**. Dr. Greenspan, on page 11 of your statement, you were not at all evasive, as you are, I think, in answering questions put to you by Mr. Meeds, when you discussed investing ratios. You were very specific, and you used targets to say that investing ratios well in excess of 12 percent would be needed in the next 4 years with the required capital in place.

Have you not made a distinction between human beings in place, and capital investment in place? You specify a precise figure is needed for investments. Yet you cannot do the same. You do not deal as precisely with human beings as you do with capital.

Why is there that distinction?

Mr. GREENSPAN. I did not mean to make that distinction.

Mr. HAWKINS. You made that distinction on page 11.

Mr. GREENSPAN. Well, no, at the top of the page. I said studies of capital requirements are not precise. The basic data on our present capital stock are among the weakest of our economic statistics. Furthermore, a long series and assumptions and qualitative judgments are required to estimate future capital requirements. I trust that was meant——

Mr. HAWKINS. But that was a disclaimer. But then you say, despite those risks and taking into account employment, productivity, environmental safety and other energy goals, business investment would have to average 12 percent of GNP from 1975 to 1980. That is precise.

Mr. GREENSPAN. I would think——

Mr. HAWKINS. Despite all the disclaimer, there are risks involved.

Mr. GREENSPAN. This is the result of the study of the Department of Commerce, and I would indicate to you that, we were much more general in specifying this as we originally put it forth in our study. If you are saying to me that my statement appears to be too precise I would agree with you. I would think that——

Mr. HAWKINS. No, I was saying——

Mr. GREENSPAN. No, no, I understand that. I——

Mr. HAWKINS. I am just saying that you cannot deal with unemployment figures in the same manner in which you deal with capital.

Mr. GREENSPAN. Mr. Hawkins, I would agree with your criticism, but the criticism really rests on whether or not the language on this specific page is too specific and not qualified enough, and I think I would agree with you.

Mr. MEEDS. If I may go back to just one more subject matter, on page 3 you say, "putting people on public payrolls in an unproductive job is not much different from unemployment insurance, since the activity that is taking place contributes relatively little to the total national product. Would you describe for me what you define as an "unproductive job"?

Mr. GREENSPAN. I think before you came in, Mr. Meeds, the question was phrased, what would I define as "productive jobs"?

Mr. MEEDS. Well, then, just give us the reverse of your other answer.

Mr. GREENSPAN. I will try. Just to quickly paraphrase what I said in the beginning, there is virtually no element of human endeavor or action or activity which is of no value. The question is a question of relative terms of the basic degree of productivity, in producing goods and services, relative to the average. It is really a question as to what is the relative output per manhour of a particular job vis-a-vis the average.

In this context somebody in a low productivity job in effect turns out relatively less so that the distinction between unemployment insurance and doing virtually nothing as a consequence and being paid to do something where the activity in effect does not produce very much is less significant than is often stated.

Mr. **Meeds.** And this is a totally economic, as opposed to a socioeconomic definition of productivity?

Mr. **Greenspan.** Yes. It is a concept of real incomes and real production because the purpose of the analysis is largely to tie it to the relationship between wages and output per manhour, and the distinction of production and incomes.

Mr. **Meeds.** Would you term, for instance, the planting of trees, Douglas fir trees, or pine trees which will later be turned into lumber of plywood or pulp, unproductive or productive?

Mr. **Greenspan.** I would say that is productive.

Mr. **Meeds.** Extremely productive, is it not?

Mr. **Greenspan.** I do not know. It depends on many factors—where, under what conditions, and what the expected future prices average. I would be unable to make that judgment without a far greater degree of information.

Mr. **Meeds.** OK. Are you aware that we have cut over some 3½ million acres of the Federal forest lands, which have never been replanted?

Are you aware of that?

Mr. **Greenspan.** I have heard of it, Mr. Meeds. What I know on that issue is what I read in the press.

Mr. **Meeds.** In the forest service manuals.

Mr. **Greenspan.** I do not read the forest service manuals.

Mr. **Meeds.** That is where you also find that information.

Mr. **Greenspan.** I am sure it is there, I just meant to say that I have not read the forest service manuals.

Mr. **Meeds.** Well, that is where the press got it.

Mr. **Greenspan.** OK.

Mr. **Meeds.** And, are you aware that we are cutting over every year on the Federal forest lands, 50,000 acres that were more than were replanted? Are you aware of that?

Mr. **Greenspan.** No, I am not, and I might say that——

Mr. **Meeds.** Does it bother you, if I am correct? Does it bother you that we might be doing that?

Mr. **Greenspan.** Mr. Meeds, I have been in government sufficiently long at this stage, to know that——

Mr. **Meed.**—To not be bothered by that?

Mr. **Greenspan.** No, no, it is not a question of being bothered. It is the question that I often find that, when I hear a particular set of facts for the first time about a particular governmental program, good or bad, that you are always surprised to find that, there are reasons for doing something, or not doing something.

Until I find out what the reasons are, I would not——

Mr. **Meeds.** Well, that is what I would like to examine with you, how productive you think that is, if that is what we are doing.

Mr. **Greenspan.** I do not really have the capacity to make that evaluation on the basis of the information I have. A concept of productiveness is a very complex issue, and it is relative.

Mr. Meeds. Now, let's not get into this. And, again, I do not want to oversimplify, and I do not want to ask you to, but are you then going to say that it is productive to leave 50,000 acres of national forest lands without ever replanting?

Mr. Greenspan. I——

Mr. Meeds. Certainly, you can agree with me on that, that it is not very productive to do that?

Mr. Greenspan. Let me tell you the type of question I would ask. For example, if that issue were raised, for example, within the executive's policymaking apparatus, I would say, why are we doing that?

Now, the point at issue is that there are reasons, good and bad or perhaps somebody forgot to plant—Now, if you are telling me that the last——

Mr. Meeds. Now, let us just assume that the forest service, the Bureau of the Budget, and everyone who makes those decisions—and the Congress—we take our share of the blame—has, in effect, said that we do not have the money to do that, because you and I both know the best reasons.

Mr. Greenspan. I do not know them.

Mr. Meeds. You don't? I am surprised you don't know some of the things I do about this.

Mr. Greenspan. Well, I am not surprised at all, Mr. Meeds.

Mr. Meeds. But the fact is that we are leaving every year 50,000 acres of forest lands which we are not replanting, because we are not spending the money to do that.

Now, at the same time, we have that little problem, which both you and Mr. Hawkins have alluded to, millions of unemployed youth in this Nation. Some of them are drawing unemployment compensation and some of them are on welfare. Some of them are on neither.

Do you not think that it might be a good plan to marry up all those young people that need jobs with jobs that need doing, and that it might, in fact, be more productive than leaving the forest lands cut over and not planted, and the young people out of work?

Mr. Greenspan. Mr. Meeds, an analysis of these types of projects has been going on, for not only this type of project but for a large number of other types of projects.

The studies that have been done, both in the Congress and in the executive branch have attempted to evaluate the pros and the cons and a lot of different things. Many of them have gone forward in legislative requests. I do not know, I have never seen one on this specific one. I hesitate to respond specifically to your question.

Mr. Meeds. The fact is, nothing is being done. What we are balancing against is doing something or doing nothing. That is the problem I find.

Mr. Greenspan. Are you asking me whether this a subject which should be examined. I would say, certainly and that I would assume it has been. But I cannot say that I know from my own personal experience what the answers to these questions are, or that I have been exposed to it. But I must say, I would be interested in knowing why not, or what the problems are in doing it.

I do know, that sometimes, the solution to a simple problem can be terribly complex.

Mr. MEEDS. Thank you, Mr. Chairman.

Mr. QUIE. Would the gentleman yield to another question on productivity?

Mr. MEEDS. Yes.

Mr. DANIELS. I might say at this point that the Doctor has a commitment at The White House.

But he did ask me, before the hearing started, that he would like to get out of here by 10 minutes after 11 o'clock.

Mr. Sarasin would also like to ask some questions. I hope your question is brief, Mr. Quie.

Mr. MEEDS. If the Chairman, would yield, it might be a little inconsiderate of him not to give us his full time while he is here. He is a very fine and capable person. And I think this committee ought to get the full value of his knowledge.

Mr. DANIELS. If the committee deems it necessary to have further questions of Mr. Greenspan, I will be happy to have him back on the date that we return from our vaction. I intend to have this bill marked up the week that we return.

Now, if the committee in its judgment, feels that we need extra time to hear from Mr. Greenspan, I am more than willing to listen to my colleagues.

But at the same time, I think it is only fair for Mr. Sarasin to have an opportunity to ask a few questions.

Mr. SARASIN. I will yield to Mr. Quie.

Mr. QUIE. If a person is receiving unemployment insurance, and stays home, and paints his house, is that productive or unproductive?

Mr. GREENSPAN. Is the painting of the house productive? I would probably say it is productive. The question again, is relative to what?

Mr. QUIE. I recognize that. So the mere fact that a person is out of a job and is on unemployment insurance, could mean that he is productive as well.

Mr. MEEDS. Is that as productive as planting the trees? And that is the question. [Laughter.]

Mr. QUIE. I would say on planting trees, that that is our fault. When we put out money for the mayors to use, and refuse to assume the responsibility that is the Federal Government's responsibility in the Forest Service, I think you have touched on something that we have neglected in the Congress year after year.

I think it is atrocious that we do not have the replanting of the trees on national forest land, because I understand that privately owned forest land is 30 percent, but they produce 70 percent of the wood. Now that 70 percent of the land is national forest, and we only produce 30 percent of it. A good bit of it is because we are not putting effort on the hiring of people to plant trees.

Mr. DANIELS. The gentleman from Connecticut, Congressman Sarasin.

Mr. SARASIN. I do not intend to belabor this, but I would like to thank you very much for your statement and for your responses to the questions of various members of this committee. They have been most helpful to us this morning.

I would like to get into one area. That is the question of the prevailing wage section of this bill which requires that the public service employment will be paid at the minimum wage, the comparable wage, the date it is vacant wage, whichever is higher. I wonder if you would address yourself to that issue?

Mr. Greenspan. It is apparent to me that if you designate public service employment as the employer of last resort, but you mandate wage levels, which would tend to be at the upper fringes and in many instances in excess of comparable private wage patterns, there will be a tendency to make the program the employer of first resort.

In the context for example, of Davis-Bacon, where we have specific differences which exist between the union and nonunion wages within comparable job categories, I think there would be a tendency to attact people away from other jobs to jobs. While, in the context of what we have just been discussing, would likely be less productive.

Mr. Sarasin. Would that not really exacerbate the situation that we would be trying to solve by this legislation, as I understand your statement?

Mr. Greenspan. Yes, sir.

Mr. Sarasin. It has been suggested to me that we had such great success in World War II with a planned, centrally controlled economy. When we moved 17 percent to 1 percent unemployment, that we are in a position to do it again, as I recall the testimony. It said that in spite of the fact that we had 15 million men under arms, and half of our GNP went into war production. Do you think we should do it again?

Mr. Greenspan. No, sir.

Mr. Sarasin. I agree with you very much.

Mr. Quie. If you recall, during the war people were frozen in their jobs. I had a hard time getting off my farm into the service.

Mr. Greenspan. That is one reason why the unemployment rate got so low. There was no mobility in the system.

Mr. Quie. You will yield there are still some people frozen on their jobs.

Mr. Sarasin. A question was addressed concerning the situation in Western Europe, and the low unemployment rate. I wonder if you could address yourself to the other side of that? What kind of an individual tax burden is placed on the citizens of those countries who support some of the programs that exist there, as compared to our tax program?

Mr. Greenspan. Taxes generally are higher in Western Europe than they are here. Specifically, in the United Kingdom, for example, as you know, the rates are very substantially above our levels.

Mr. Sarasin. Dr. Greenspan, again I want to thank you very much for your help to the committee this morning.

Mr. Daniels. Dr. Greenspan, on behalf of the committee, I want to express to you our thanks for your testimony.

Mr. Greenspan. Thank you very much, Mr. Chairman.

Mr. Daniels. The next witnesses are my colleagues from the Congress of the United States. And the first one to testify, is Hon. John Conyers, Congressman from the State of Michigan.

STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. CONYERS. Mr. Chairman and members of the subcommittee, I regret, that first of all, there isn't a microphone, to catch some of the very interesting remarks that are expressed, but frequently are not heard by everybody present. Secondly, I would note that my colleague, Ms. Abzug is here, and I should state that ordinarily, under these circumstances, I would yield to the gentlewoman of New York, and let her precede me. But I think there should be some appropriate buffer between her and the preceding witness.

[Laughter.]

I offer myself in that capacity, to begin this discussion.

Mr. DANIELS. John, let me say this; that the witnesses have been scheduled in the order in which their requests came into this subcommittee. Normally, I would call on the gentlewoman first. And I am quite sure that my male colleagues would graciously accede to that request.

Mr. CONYERS. Of course, of course.

Mr. MEEDS. Not me.

[Laughter.]

Mr. CONYERS. At least, the question of Congressional seniority was not involved in this selection.

Now, to follow Dr. Greenspan, of course, radically alters whatever was going on in my head before I got here. I mean, it would quite frankly be highly appropriate for me to ask leave, and go back and prepare a small presentation, just based on my differences of views with those he has presented here, just in the short time that I was here. I didn't even hear but a fraction of his testimony.

Perhaps that develops a very important point. And that is, that economists as a group have largely misadvised more people than any other profession known to mankind. So much, to the point that there have been recent reviews by economists themselves, that began to examine these shortcomings.

And I think that this committee, after weeks of prodigious effort, and unfortunately having been subject to testimony by too many economists, should keep that in mind.

You know, what could be a very valuable product of this committee at some point, after the most important social and economic piece of legislation that has been introduced since I have been in the Congress, could be a study of the misrepresentation, the errors—the failure—of this science of economics. I say that humorously and seriously. Because the list of their failures and predictions would really make a book. As a matter of fact, they have made at least one book that I know of (Prof. Robert Lekachman's "Economists At Bay").

Now, Mr. Greenspan is, of course, most remembered by ordinary people not in Congress for his remark about who was being most deeply affected by the recession. You may recall it, members of the committee, it was his judgment that if you thought it was bad out in Detroit, where unemployment was running about 21 percent, he said, that "You ought to really find out who has really been most hard hit." He said, "It was Wall Street." Remember that? I hope you do.

Well, the point I am getting at is that there are economists and there are economists. And they bring to the Congress and the executive branch, not only their view as reasonable men, and honorable members of that profession, but they bring also a political or ideological point of view that necessarily accompanies it to this very, very important piece of legislation.

I propose, not to try to deal with Mr. Greenspan. I started taking notes, and I was going to really come up here and try to do a corrective job, in terms of bringing this into focus. I cannot do it. I will not try.

But I really think that the time is upon us, when we are going to have to set aside all of the views of the economists, and operate as legislators. And it is very interesting that last night, not accidentally, I was with the Congressman from Arizona, Mr. Udall, a cosponsor of H.R. 50; the former Governor from Georgia, Mr. Carter, a recently turned devotee of H.R. 50. I have received intimations from the Senator from the State of Washington, that he now endorses fully the principles in H.R. 50. And it seems to me that this bill is about to make some major moves out of the distinguished committee that it has been in, and that we are about, perhaps, to move to a very important part of our history in which we complement the bill of 1945–46. Which really addresses itself to this question. That bill didn't resolve the question of unemployment.

H.R. 50 states that full employment is a prior economic goal, and does not equivocate as the Employment Act of 1946 has done.

Now, the reason I mentioned the names of the gentlemen that I did, is because it is very critical to understand that there is a great movement in the country among the people and the leaders, that we respond to this very fundamental economic condition. Can we put everybody to work in this country that wants a job? Are there some economic circumstances that are so complex, and are so mysterious, that would make this impossible?

I submit, granting complexities, that we can do that. And I am not talking about 3 percent, or 2½ percent. I am talking about zero percent unemployment. Except for transitional unemployment, of course. If that were the objective of the whole Government, not just the Congress, not just a fiscal agency, that it could be accomplished. And I think that there is some evidence to support that.

Now, the congressional black caucus has become deeply involved in this. And it is out of that context that I refer to a discussion with the Speaker of the House of Representatives, who, meeting with the author of this bill, and several others, has put his support behind H.R. 50, as I presume you know, in the strongest possible fashion. He said, I will do anything you gentlemen and ladies visiting me today want me to do about this bill.

We met with the president of the AFL–CIO, Mr. Meany, who was investigating this bill—an earlier version of it. He also put, accordingly, his unequivocal stamp of approval on the concepts that are involved in this bill. A hundred and fifteen Congressmen have said the same thing. The majority of the American people, by every poll that has been taken, have said the same thing. And the Speaker said, when I asked the question, when? He said that we could get this bill through the Congress by May. And so, I can understand your dilemma, in terms of either calling back the previous witness, or forgetting it, and just going ahead and doing what we have got to do, as Members of this Congress.

The question of who is going to govern the executive branch for the next 4 years is very largely involved in how this question is resolved in the Congress. Because rightly or wrongly, and I perceive rightly, that it has been determined by many voters, that this is the key question on which we are going to judge which candidate ought to be in the White House. A very legitimate way of choosing, since frequently, there isn't a dime's worth of difference. And what I am saying to you here, is that the Congress must act on H.R. 50 as expeditiously as possible.

Now, I have promised myself that I was not going to discuss the moral implications of this. But I will spend one sentence on it. I think it is immoral and criminal for people in the Government to sit around here and talk about why people can't be put to work that want work in America. And so I come to you with some very strong views about the passage of this bill.

The facts surrounding it you by now know better than I. But there are a couple of things that I think that we should deal with. And one of them is that the bill is too weak, for my taste. Oh, I know that the legislative process requires that we moderate our objectives. I understand that compromise is essential, to get anything through. But I am afraid of where we are going to end up, from where we are now. And it may be another 1976 version of 1946.

Now, you know what happened in 1946. We started out with a great bill in the Senate. And it was seriously eroded in the House. Well, this time, the House is the initiating focus in the Congress.

And it seems to me already, that perhaps, we may have made some concessions that we may end up regretting. I would like to identify them.

First, is the determination that the goal of 3 per cent unemployment should take 4 years to achieve. I take exception to that. I will tell you why. We are really talking about 5 years. I think I heard somebody already intimate that. We could do it in less than 4 years. We could do it in less than 3 years if we wanted to. Why don't we find out, since the Chairman of the Economic Advisors was just before here, and said: "No, I do not think we can repeat World War II, the World War II effort." No. Why no? Nobody even bothered to ask him that? It was just "No." Just a throwaway question. It doesn't even deserve to be explained. Just in his view. Why disagree with his view, with all due respect? Because there are other economists that happen to think that we can achieve this. We don't have to match World War II. But we don't have to take 4 years to come to 3 per cent. And there is a lot of evidence of that fact. And I think you know it. And if anybody doesn't on this committee, I wish they would indicate it, so we can at least get it in the record, so nobody can say they didn't know it.

Now section 206, with these eligibility requirements. I object to it. What difference does it make how many people in the household are working, if X is out of a job? Now the Joint Economic Committee said that throughout the year of 1975, 75 million people were out of work at some time or other during the year. I think that it is very important that we get rid of some of those eligiblity requirements. It is section 206, page 33, It is too stringent, Mr. Chairman. And I know what has to happen when we start bunkering down here, to say we are going to pass a bill of this magnitude. You don't have to tell me before you get to the Rules Committee. The word is: "No Amendments—improving or debilitating. No Amendments. Or you are never going to get this bill through."

Now, if you don't do that here, we are going to try to do it on the floor. But I know what the outcome is going to be. That is why I am asking you to give it your most careful consideration.

Well, there are some other things that I could mention. Stronger language to mandate that the Federal Reserve Board tailors its monetary policy to conform to the full employment target even though Mr. Greenspan thinks that that is really not too very important. But I think that they ought to be mandated to tailor their policy to employment goals, and not to leave them too much discretion in that.

Of course, the Federal Reserve Board ought to be brought back on the whole governmental reservation, where as today it exists out in the space, like a little planet off the constellation. They respond to nobody. They are subject to no controls, including the Executive. Because we have had conservative Executives, and conservative heads of the Reserve Board, and conservative economic advisers, there has never been any serious disagreement among them. It is always, "Let's increase our capital investment." And by golly, down at the end of the tube, you create some jobs for all of these people they claim want work.

Now, if anything has been more disproven than that, it is the trickle-down theory. If there is anything that is more discredited, it is the idea that there is some tradeoff between unemployment and inflation. We all know that there are now a substantial number of views from economists that this doesn't have to be. We all know that we don't want to take the patterns of policy from 1953, and try to use those as a guide for anything in the future. We have been through all the recessions. You know it.

Now the question is, in my view—how strong a bill are we going to come up with, and get out of Congress this year? And join the major issue before the American people? And I urge you to make it as strong as you feel that you can.

Thank you.

Mr. DANIELS. Thank you, John, for your testimony. I want to compliment you for your views. In your testimony, you said that this bill is too weak. What amendments do you feel should be offered to straighten this bill? And which, do you feel, will have a fair chance of being considered and passed by the Congress.

Mr. CONYERS. Thank you, Mr. Chairman. Let me say, that the first thing is our goal of 3 percent in 4 years. What did the earlier bill have in it? The earlier bill was 18 months. The second is the eligibility requirements in 206. The third is the language mandating the Federal Reserve Board to start acting like full-employment goals have something to do with them.

The other one is giving a legally enforceable right to those who don't get a job, even after we pass the law, and have the Executive, the Congress, the fiscal monetary agencies all working on this. Why not give a person a legal right? He has got a legal right to unemployment compensation. He has got a legal right to social security. He has got a legal right to welfare—for unemployment and workmen compensation benefits. You mean we are going to put together the most important piece of legislation since the 1946 bill, and then take out the right for him to sue? Oh, I know there are going to be some who say—oh, that is another bureaucracy? If you do not give an unemployed person the right to be effectively represented, we are going to be doing a great disservice to the concept that is embodied in H.R. 50.

Finally, I propose that we restore the provision for local planning councils to administer public jobs programs, as existed in the bill's previous draft.

Now, those are the five propositions that I would really urge you, Mr. Chairman, to do what you can to strengthen.

Mr. DANIELS. Thank you very much. I recognize the author of the bill, the gentleman from California, Congressman Hawkins.

Mr. HAWKINS. I thank the gentleman from Michigan for his contribution in this field. I know he has thought the various phases of the bill out very carefully. I think he was involved in the original bill that was introduced. I think his suggestions were very constructive. Some of them, I think, have been fairly considered in terms of both the objective of getting an effective bill in this session and also containing the support that is necessary. In other words, I think some suggestions he has offered are to be considered very seriously and in fact are already being seriously considered.

Two of his suggestions are already being considered: in particular the criteria which are used in a terminal aspect of the bill, as to the number of persons who may be employed. I think we are giving some very serious thought to making some changes in that particular section of the bill.

The second concerns the percentage. We have had a lot of differences between the Senate and the House as to whether it should be 3 percent in 18 months or 3% in 4 years as it is now. I may say that there was very tangible support in the Senate. As a matter of fact, our only support in the Senate, has suggested that their staff members with whom they have consulted, and with apologies to referring to the economists, that there are many economists serving within the past administration and under much more progressive administrators, who objected to the 3 percent in 18 months. We need some modifications on that, primarily, for getting support for the bill.

I, personally, fought against changing the bill from its original position. I am fairly satisfied that the important thing in the bill is the establishment of the right-to-jobs, the statement of a goal; and it is not an absolute goal, as you well said, it is the particle goal

The important thing to me is reversing the direction in which we are now moving and getting down to as low a percentage as we possibly can.

Actually, it is not a goal of 3 percent in 4 years, it is not a goal—just an excess of 3 percent. I think, if you consider the first part of the bill itself, as well as the other strengthening features of a bill that we have made since the original bill, the revised version is, in many ways, stronger than the programs we have actually put into the bill.

Many of the other features of the bill call for a study of various government programs, the elimination of duplication, and the spelling out of the types of programs we think would be extremely significant in accomplishing the purposes of the bill. Those provisions of the bill are much stronger than the bill itself. I believe it is these stronger provisions to which you have referred. I think that with some minor modifications—one or two to which you have already referred today—the bill is an effective approach. If we can move this bill this year then, I think, we have come a long way towards a concept that people will accept in its early stages of operation.

I would like to have a strong provision for court procedures with respect to the right to sue. I have based this on 40 years of legislative experience. We have faced this with EEOC, job area centers, social security and in many other areas. We made many concessions to administrative difficulties during the first few years of operation of public programs. And, I think that we have got to admit that to put the bill into operation, we would not want to see the program discredited and confused by a lot of administrative difficulties, which may come from some of the stronger provisions.

As a coauthor of the bill, I am in a strong position to defend the bill in its present form with one or two minor modifications. I think that we will give very serious thought to one or two of your suggestions. We count on you for such assistance as we may obtain.

Mr. CONYERS. I know that you will.

As the author, of course, I know that you are going to be pressing and I know, personally, your views and know that you will be fighting to keep the bill as perfect in all respects as you can. What is the standing of the person who would feel agrieved under the act now? How could he secure the rights that are enforced by H.R. 50?

Mr. HAWKINS. I would think that the individual, first of all, would have the administrative rights which are based in the bill. I think the other phases of the bill, as to whether they are being adequately administered, would always be subject to suit.

I think administrative remedies, certainly in the first-stage operation of the bill, would be the strongest recourse that an individual grievant would have.

I would certainly think that this is not the final version. If we get the type of Congress that would pass the bill and type of administration that would sign the bill, then I think we could look forward to any other changes needed.

Mr. DANIELS. I now recognize the gentleman from Washington, Congressman Meeds.

Mr. MEEDS. Mr. Chairman, I do not have any questions. I just want to commend my colleague for a very fine, affirmative statement.

It is particularly gratifying. I would also advise that my colleague from Washington, Senator Jackson, has been a very strong supporter of H.R. 50 from the outset.

Mr. CONYERS. I am glad that he is.

Mr. DANIELS. Thank you, John.

[A statement from Hon. John Conyers follows:]

PREPARED STATEMENT OF HON. JOHN CONYERS JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and Members of the Subcommittee, the opportunity to be heard today on the Full Employment and Balanced Growth Act is especially significant to me, to all of my constituents, and to all other Americans who have experienced the rude shock the past several years in seeing their pride in work and sense of competence as breadwinners wiped out by forces beyond their control.

I am firmly convinced that the much-touted notion that ninety per cent of Americans, who are working, don't really care about the ten percent without jobs is totally without foundation. Those who wish to see this bill defeated would like to show that only a tiny minority has a stake in it. To the contrary, today's unemployed are not the only individuals who want H.R. 50 enacted. They are joined by millions more who always considered themselves to be part of the mainstream of society only to discover that they too are expendable and just one step removed from the shame and disgrace of joblessness. The Joint Economic Committee last year estimated that seventy-five million Americans at one time or another were hit by unemployment in families with at least one breadwinner who was out of work. The way our economy is structured, almost all employment is basically marginal in the sense that even the best-trained and the most productive members can become economically displaced citizens overnight. And this is a consequence of a tiny minority in our society who enjoy almost total control over the decisions that affect the livelihoods, plans, and hopes of all the rest of the population.

The past several years there has been a rapidly growing perception among our people that they are pathetically dispensable objects of the economic system. My evidence are two highly respected polls, among many others, conducted during the past several months. Seventy percent of Americans polled by CBS and by the New York Times in February favored the Federal Government guaranteeing "that every person who wants to work has a job." The Peter Hart poll last July demonstrated that large majorities favor substantial changes in the economic system, lack confidence that big business cares to make the changes necessary to employ all those who want to work, and want to make the private sector fully accountable to the American people.

The opponents of the Hawkins-Humphrey Full Employment bill who assert it raises dangerous expectations and hopes in the public mind had better reflect on the fact that these expectations and hopes are already on the minds of most Americans, and that H.R. 50 embodies them in legislation that more than any other now before the Congress can fulfill their expectations. Public opinion is well prepared for enactment of this bill and only its disfigurement or defeat will cause the Congress future grief, not the hopes and expectations themselves.

I am especially pleased to have this chance to engage in dialog with you because I consider this legislation the most momentous economic legislation before this Congress or any previous Congress since the 1940s. Thirty years ago the 79th Congress first deliberated on full employment legislation which in its essentials was not very different from the present bill. And recall for a moment the goals of the Full Employment Act of 1945, sponsored by Senators Murray, Wagner, and Aiken, among others, and by Representative Wright Patman in the House. That bill sought: to promote the general well-being of the nation; to protect the American home and the American family; to raise the standard of living of all people; to utilize fully our national resources; to promote competitive private enterprise; and to strengthen national security and contribute to a lasting peace. Who among us would question the desirability and the urgency of these goals?

I doubt that anyone disputes how providing work for all citizens helps maintain a strong, stable family and community life, or contributes to raising the standard of living. But I suspect that the connection between full employment and the promotion of national security through a lasting peace alludes a great many. Is there any question that full economic, as well as political, participation in society secures morale and popular support for our institutions? Jobs give individuals a sense of stake in their country and impel them to feel responsible for what they and their government do. On the other hand, being left out of the system is likely not only to lead to non-compliance with its rules and obligations, but also to destructive behavior directed against its very way of life.

And what about the connection between full employment and peace? Should it be hard to see that a people who are fully engaged in useful and satisfying work are less likely to support designs of military adventure abroad than are a people who are despairing, angry, and forelorn in their own lives and who are susceptible to the appeal that their frustration and distress is the work of enemies within or without. Full Employment would foster a hopeful people, who don't need scapegoats and who recognize fully because of their own productivity that the last thing they want is to go to war and destroy all the good they themselves have accomplished in their lives.

Today as we consider H.R. 50 we confront a league of opposition similar to that which fought so bitterly against the Full Employment Act of 1945. But there is a difference. The arguments of today's opponents have far less credence both because the economists they depend on have been so thoroughly discredited by recent economic history and because the opponents themselves just barely can disguise the real reasons for their opposition—self-serving ideological and political reasons that serve to insure the perpetuation of a structure of privilege that has relentlessly chewed up the incomes, initiatives, and interests of most American workers and consumers.

We have heard virtually every presidential candidate publicly embrace full employment legislation in the abstract, which in most cases, but not all, amounts to nothing more than lipservice to the American creed. And many of my colleagues also assert with such sincerity that, of course, all Americans should work rather than be idle and despondent, that everybody agrees about the end, but reasonable men and women can disagree over the means to achieve it. But I challenge the mendacity of some who insist that the goal can be achieved without major changes in our political-economic system, that the so-called free enterprise system, if left alone, is fully capable of generating all the jobs that Americans want.

Well, I listen politely and then look at the history of free enterprise's capability and commitment to create all these jobs. During the past thirty years since the passage of the Employment Act of 1946 (which, of course, was a fundamentally watered-down version of the original bill), what has really been accomplished? What has the private sector contributed to full employment? The official unemployment rate has averaged 4.9% for the labor force as a whole, but twice that rate for black Americans, fifteen per cent or so for teenagers, and 40% for black teenagers (and women who have always worked but who never received the compensation they deserved as mothers and housekeepers were virtually excluded from the workforce altogether). The free enterprise system contributed the highest annual rate of unemployment just last year, an official overall rate of 9%. Only in two years since 1954 did the unemployment rate among blacks nationwide drop below 7%. And unemployment rates in major cities have been catastrophic during this period—in Detroit the official rate still hovers around 12.5%. We have not had full employment at any time since 1953. Is there any reason on the basis of the historical performance of the free enterprise system to expect that this same system will bring full employment in the future?

It is no coincidence that H.R. 50 comes before us now, and has its genesis in the experience of Vietnam and the second greatest depression in the 20th century, just as the first full employment bill had its origins in the Great Depression and in World War II. Depressions offer the most convincing refutation that business cycles are not just routine economic occurrences, performing necessary adjustment functions, and self-correcting, but rather that their impact is horrendous, their damage long-term, and more importantly that there is no reasonable justification for these flip-flops, given sensible policies and programs of long-term economic planning. Business cycles perpetuate private control over a labor force to be used in good times, to be discarded in bad times, and always to be kept off-balance with the threat of lay-offs. And I suspect the only two full employment bills in the past thirty years grew out of a context of war for two reasons: first, if this nation can commit itself totally to the struggle for fredom abroad, it can do no less than provide the economic conditions of freedom at home: second, this nation can do no less than provide its veterans with jobs after it has sent them off to risk their very lives. After World War II Lord William Beveridge raised a question on many people's minds: "Unemployment has been practically abolished twice in the lives of most of us—in the last war and in this war. Why does war solve the problem of unemployment which is so unsolvable in peace?

I am distressed at the barely-veiled cynicism of the opponents of the Full Employment Act who nonetheless assert their commitment to its goals. These are people who argue that the free enterprise system is the bedrock of the economic miracle the past 200 years, comfortably countenance the billions in annual tax subsidies and other forms of assistance the Federal Government provides, yet who condemn government assistance in creating jobs for the unemployed and the poor.

Opponents assert that H.R. 50 would create permanent public employment that amounts to make-work jobs. But why do we consider the work that makes a better grade of dog food or a more bubbling beverage more satisfying and self-respecting than the work that creates hospitals, schools, recreational facilities, and liveable cities? Why are public jobs considered things that merely involve cost, whereas private jobs can only create wealth? Were the 650,000 miles of roads, the 110,000 schools and libraries, the 13,000 playgrounds, the 78,000 bridges, and much more, created by WPA during the Thirties make-work?

Some critics allege that the goal of H.R. 50—to create ten million additional jobs by the end of 1980 to bring unemployment down to 3%—is unachievable. But jobs creation on this scale was accomplished in the space of several months during the 1930s. From 1949, a recession year, to 1950, civilian employment was increased by 2% in only one year, which would come to about 9% in four years, allowing for compounding. And during the 1960s civilian employment was increased at rates close to what is required to meet the target of H.R. 50.

Others argue that if we look at the 20-odd years since 1953 there is no reason to believe we can achieve the economic growth required to reduce unemployment to 3% by the end of 1980. But we all know that this period [illegible] our economic history was very poor, including five periods of stagnation and five periods of absolute recession. What kind of record is this to serve as a standard for the future? The import of H.R. 50 is that we can do better.

We hear the argument that the attainment of 3% unemployment would break the Federal treasury. These critics obviously have not examined some competent analyses which indicate that two-thirds to three-quarters of the additional jobs created under H.R. 50 between now and the end of 1980 would be private jobs and that only about 1.5 million at the most would be from the reservoirs of last-resort public projects. The counter-cyclical mechanisms in H.R. 50 would phase out public service jobs to the extent that the necessary employment is created in the private sector.

And we hear the hue and cry that the government jobs created would be wasteful of resources. This is outrageous when we consider the far more devastating waste accruing from the forced idleness of millions and from the underutilization of our full productive capacity. Conservatively estimated, during 1953–1975 we forfeited more than 3.3 trillion 1975 dollars of total national production; we suffered the loss of 61 million man- and woman-years of gainful employment; and at existing tax rates we have given up roughly 750 billion dollars of public revenues at all governmental levels, which could have balanced budgets and served our pressing internal public needs.

And in this connection, though I appreciate the role of the Director of the Congressional Budget Office in outlining for the Congress the possible risks involved in creating full employment, I am disturbed that she did not make reference as well to the even greater risks of an economic policy that perpetuates massive, chronic unemployment. But we have the evidence of the true costs of unemployment although the Congress, reflecting its own economic prejudices, has never undertaken a systematic analysis of the human and social toll of joblessness. Take crime rates. In Detroit as the number of unemployed persons nearly doubled from 7.9% to 14.9% last year, the crime rate rose by 17.9%. The relationship between unemployment and rising crime rates was attested to by none other than the Attorney General. There is also an increasing number of studies on the relationship between economic insecurity, joblessness, and economic downturns, on the one hand, and indicators of physical and mental illness, on the other. These studies clearly confirm that severe economic recessions and prolonged periods of unemployment lead to higher rates of mental illness, increased alcoholism, increased child abuse, and heart disease mortality.

Two final arguments of opponents bear scrutiny. Last week one of the distinguished Members of the Subcommittee stated as a major objection that H.R. 50 like the Great Society programs would raise expectations and hopes only to see them dashed. The public would be left, presumably, even more frustrated than it is today. I am aware that much of what passes for political argument today goes under the banner of austerity—austerity, needless to say, for those for whom it has already been a necessary way of life. The theory seems to be that giving millions of Americans little or nothing to hope for or to expect is less dangerous than giving them cause for hope. I must confess that a doctrine of politics that is based on public hopelessness as a virtue strikes me as the quintessential expression of all that is opposed to democracy. The Great Society programs did not fail because too much was spent on them, but rather because too little was spent for too short a period. More fundamentally, the Great Society programs were based on incompatible goals: to promise a segment of the population fundamental ameliorative change in their lives and yet to do this without upsetting the status quo of privilege. I agree that if expectations are raised and then dashed because government was never really serious in the first place, a contemptible hoax is perpetrated on people. That essentially happened when the war in Southeast Asia by the mid-1960s was allowed to supersede all the professions of, and actions toward, domestic social reform. Funds were eaten up and commitments were breached. We must not do this again.

Finally, the old saw of the tradeoff theory between inflation and full employment is advanced as a major argument against H.R. 50. Everyone is understandably concerned about inflation. Yet I submit that singling out employment and wages as the major culprits is more an instance of business ideology than of sound economic analysis. This is a very convenient way for the business establishment to shift responsibility from its own shoulders onto that of the working class. Since World War II the general price index has been going up continuously, as a secular trend; it has never come down Prices have gone up in good times and bad, with high unemployment and nearly full employment. And in the past several years prices have been impervious to shifts in supply and demand. Last week the Director of the Congressional Budget Office admitted in questioning that the inflationary performance during the past few years has been so complex and so unfathomable that it would be most hazardous to make forecasts about inflation in the years ahead. If it is so uncertain what inflation will be like in the future, while the benefits of moving toward full employment are so certain and enormous, why should we permit uncertain and unpredictable "risks" interfere with the undisputable benefits? Frankly, it baffles me that those who have witnessed recent double-digit inflation coincide with the most severe and prolonged recession and highest unemployment since the Great Depression can still argue that a vigorous movement toward a strong and healthy economy would again bring double-digit inflation.

In the final analysis, the reasons for the oppostion to H.R. 50 are really more simple than all of these rationalistic arguments. H.R. 50 would enable all Americans to work, regardless of the profit margins of corporations, fluctuations in the business cycle, or the sudden fits of austerity that occasionally seize governments. No doubt it would lead to higher wages and provide all

Americans with liveable wages. (In 1973 approximately 20% of all families living under the poverty level were headed by persons who worked 50–52 weeks at full-time jobs.)

H.R. 50 would encourage workers to improve their work conditions. It would establish public service and work employment as a credible and creditable alternative to private employment. But most important it would be the culmination of the Constitutional mandate to provide for the general well-being and render government more than just a handmaiden to the corporate economy.

We should enact H.R. 50 because this nation vitally needs it. And I want to express my admiration and esteem to my colleague, Congressman Hawkins, for his great contributions to the cause of full employment. In most respects the present form of H.R. 50 is fully adequate to facilitate the goal of full employment that so many of us are striving for. But there are a few provisions in the present bill which warrant reconsideration and some very important provisions that existed in previous versions which are left out of the present bill that should be restored. The goal of three per cent unemployment within four years of enactment, which means at least about five years from now, should be changed to a shorter period of time. Five years is too long for millions of unemployed people to wait and I think it is well within our capabilities to achieve this goal much sooner. I must express a major objection to the priority and eligibility criteria established under section 206. This section severely restricts the right to employment by introducing considerations as to "the number of employed persons in a household, number of people economically dependent. . . [or] household income . . ." Qualifying employability by reference to the number of employed persons in a household will almost certainly discriminate against the employment of women. This section may have the unintended consequence of driving male wage-earners out of the household. If jobs are to be a right there is no excuse for a means test. The language of section 106, subsection (b) merely recommends that the Federal Reserve Board design monetary policy to conform to the purposes of the Act. We all recognize that unless monetary policy clearly conforms to the full employment goals, there is little chance for this to be accomplished. I recommend the language of the previous draft that stated, "the objective set forth in this section shall be binding on all executive agencies and independent commissions . . . including the Board of Governors of the Federal Reserve System . . . If the policies of the Federal Reserve Board run counter to this Act, the President shall direct the Board of Governors to make the necessary changes that are required so that Federal Reserve policy conforms to this Act."

Finally, I recommend the restoration of two more provisions of the previous draft of H.R. 50. The present bill does not contain any workable means for enforcing the right of employment either through administrative or judicial relief mechnisms. It is questionable in the present draft whether the jobless have legal means to obtain employment. Nor does the present bill give local planning bodies already in existence under CETA the capability to identify local employment needs and to administer local employment programs. Such a capability is vital both to insure that all groups in the population have access to jobs and that the public sector jobs that are created are the ones that are most needed where citizens live and work.

It is my hope that this Subcommittee will take swift action and report out this vitally important economic legislation. In the past this nation has demonstrated incredible imagination, ingenuity, energy, and commitment in mobilizing its resources to fight enemies overseas. In war everything was possible. I consider the unemployment that millions of our people have experienced for so long as much a scourge as war. The evil today exists in our own society and takes the form of an erosion of the spirit, a confounding of beliefs, a resignation to things as they are, no matter how unacceptable and unjust. If we put our minds to it, nothing prevents us from mobilizing our resources around the greatest project of all—giving all Americans the opportunity to work, to provide, to shine, to grow. This is the challenge before us.

Mr. DANIELS. Our next speaker is the Hon. Donald Fraser from the State of Minnesota who is Special Chairman of the Americans for Democratic Action.

STATEMENT OF HON. DONALD FRASER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. **Fraser**. I would like to submit my statement for the record.

Mr. **Daniels**. I ask that Congressman Fraser's statement be incorporated into the record at this point.

Mr. **Fraser**. I would like to just make a few observations of the bill and to underscore some of the points that are contained in our written testimony.

First: I want to commend the authors of the bill and this subcommittee for these hearings. I regard this as containing the most important subject matter that has been before the Congress for many years. There is no more important national objective than providing a job for everyone who wants to work. And, speaking in my personal capacities as a Member of Congress, I am prepared to support this bill in any reasonable quorum in which you deport it.

Having said that, let me just make a couple of observations. First on the policy questions that are set out in the bill. We would recommend that the 3 percent adult unemployment target should be replaced by the concept of a guarantee of a job for everyone who wants to work.

Two: That for your time frame for reaching full employment as to whether find us 3 percent or whether we would recommend for a job for everyone who wants to work, recommend a 4-year time frame being contracted to 2 years.

Third: That the language be strengthened which would seek to insure that the present and the Federal Reserve Board are working within the framework of the goals set out in the act.

No. 4: We would urge extension of the opportunity for citizens participation in the development of a full-employment plan.

Now, those are issues that deal with the way that the policy issues the bill.

There are two other changes which I would like to bring to the attention on this subcommittee. And that has to do with implementation. First, in my view, it would be useful if this bill could contain some authority for the use of wage-price guidelines or controls.

Second, it would be useful if this bill were self-executing with respect to the increase in jobs; that is, if by the enactment of this bill, there were put in place job opportunities for Americans who want to work.

Mr. Chairman, let me just make a couple of comments in purport of these changes: First, only 3-percent target for adults, one of the problems with that is tending to obscure rather than to illuminate this distressing situation in which we look at an overall average figure that conceals the enormous unemployment facing particularly young people and, even more critically, young blacks. Currently, of course, we are all aware that the young blacks in some of the ghettos of America are facing unemployment rates of 40 to 50 percent. That is obscured in the National average of 7½ percent unemployment.

And, I am afraid that the 3-percent goal also tends to obscure that very real problem. So, we need, on the question of 3 percent, I think, to abandon that and let the question of the appropriate level of unemployment be sort of one that is self-defined. That is, people moving from job-to-job as they come into the labor market and that there is some frictional unemployment. But let it be sort of self-defining so that anybody who wants a job is able to get one—either in the private or public sector.

On the 4-year business, I would just like to observe that the Federal Reserve Board, in a period of 10 months, between August of 1974 and May of 1975 managed to run up on unemployment levels by almost 4 million people. It only took them 10 months to put 4 million more people out of work. We ought to be able to do better in coming back down and stretch it out over a 4-year period. So, I would urge that you take a hard look at that time frame.

Then, third, this problem of keeping the elements involved in the planning here tied together—I think the concepts of the bill is excellent. It recognizes the actors—the Joint Economic Committee, the Budget Committee, the Federal Reserve Board, the President, the Congress—but I hope that you will look carefully at the language to make sure that we tie in as far as possible, especially, the Federal Reserve Board. I have had it with the Federal Reserve Board. I think they are nuts in the way they manage the monetary policy of this country. The idea of restricting economic activity could either bring food prices down or oil prices has got to be one of the most astonishing propositions in modern history. And yet, that obviously lay behind the monetary policy of the last several years.

Then, on citizen participation—and what we would urge is that there should be regional boards created which would help in the planning to have some input into developing the full-employment programs.

Mr. Chairman, let me just finally go to the last two points once more—wage-price controls. I accept the view that most economists have that, as we move toward full employment, there are certain inflationary pressures which tend to be established. My judgment is that the social costs of regulating inflation through unemployment is unacceptable. It falls too hard on too many people who are already disadvantaged and at the bottom of the heap. And so, I am prepared to support publicly, and I do that in my district, the selective intervention of wage-price controls thoughtfully carried out but as an appropriate tradeoff to deal with some of the not acute social problems in society today; and, that is not just limited to unemployment but it extends to the development of crime and welfare and broken families.

Mr. DANIELS. John, would you give us your testimony?

Mr. CONYERS. Yes.

We have had a number of hearings, as you are well aware, and we have hosted economists who happened to be here who have objections to the imposition of wage and price controls. I am not an economist but the author of this bill has given this matter very, very careful consideration. His judgment as an expert on the subject is to deal with that question.

Mr. FRASER. Well, I don't like controls. I don't like 40 or 50 percent unemployment in urban areas either; and if I have to choose, I will take from selective controls. Maybe some day, we will have solved some of our problems enough so that we can have a different way of dealing with this. But, there hasn't been enough discussion of this tradeoff. I missed Dr. Greenspan ground in his views which are just out-of-step with the needs of society today.

Well, then, finally on-the-job program—and I recognize the difficulties here but we run the risk that we could pass this bill and nothing would happen. We run the risk that we could pass this bill as the 1946 Unemployment bill was passed and will happen. There won't be a single more job, you know, tomorrow than there is today; because the creation of jobs in the public sector under this bill will require further legislation. It is not self-executing. And I know that you know that but I just want to make that point strongly because I just think this section of an important idea you are working with here is that we need to seek an effective way as possible.

Chairman, those are the points I want to make.

Mr. Daniels. I want to compliment you for your very, very thoughtful consideration of H.R. 50 and for the recommendations that you have made today. You have my personal thanks as well as the committee's thanks.

I recognize the author of this bill as the distinguished gentleman from California, Mr. Hawkins.

Mr. Hawkins. I certainly don't want to postpone consideration so long that we will lose some of our witnesses. But I do commend you, Mr. Fraser, for a very excellent stand and I think your suggestions as to those made by Mr. Conyers were very constructive. I think it is very difficult for an individual who has gone through 2 years of conferences, listened to hundreds of thousands of persons as they were represented by witnesses from some 15 to 20 periods in the field to try to impose a bill which attempts to satisfy that number of individuals. It is a 4- to 2-year period which you have indicated; I am thoroughly of the opinion that if this were a 2-year provision rather than a 4-year provision or 18-months provision as I originally held, it might take several years to pass the bill. As a result of making that change, we would be right back to where we were. This reminds me I think it was in 1953 when Governor Stevenson first campaigned, he said, "I promise that by—I think it was in 1960—that every black person in America will be free economically." I wish that we had accepted that target and had worked toward it. I think, therefore, that it is a serious problem and that's the reason we have made some adjustments.

As to standby price and wage controls, again, I think this bill will not be supported by anyone except the most liberal individuals or the most liberal economist if we were to institute, in the very beginning of the bill, a provision that anticipated price and wage controls. I do not think we would need to. I think it rests, first of all, on an assumption which, both you and Mr. Conyers deny. That is why the elimination of unemployment is not inflationary. However, if you assume, first of all, that trying to reach 3-percent unemployment in 4 years is inflationary; then, I think that we are on the wrong premise. We haven't determined that this bill is inflationary to the extent that we have to institute standby price and wage controls. I see, however, that in order to prevent Congress and the administration, in their wisdom, from not advocating the passage of a full employment bill, it may become necessary to advocate passage of wage and price control. If we have the votes to pass standby price and wage controls, then we would have the votes to pass H.R. 50.

But to say now that this is necessary, implies that the bill itself is weak and that we need this protection in order to get the bill passed. And I disagree that this is necessary.

Mr. **Fraser.** The question of how much inflation would be produced as we moved toward full employment is hard to pinpoint, of course. Some of the points argued is that if you go below 5 percent now you begin to lose; of course, that includes young people as well as adults.

My only point, and the main point I want to make is, and I recognize what you say and I know the political realities here is that I am prepared to accept the tradeoff. Now, there may be no other person in the country who is—but I am.

I don't like controls but I don't like unemployment even more.

Mr. **Hawkins.** The administration has repudiated them, Wall Street Journal has repudiated them, Stewart-Grange has repudiated them, and I do not see any reason why we should.

Mr. **Fraser.** You mean the controls?

Mr. **Hawkins.** No, as a tradeoff. I think that the evidence would support such a thing as a tradeoff. Now, assuming that this is true, and that is the thrust of this bill—that there is not a tradeoff—then I think that we have placed ourselves in a very embarrassing position to say, that we have got to begin inserting provisions that will prevent a tradeoff.

Not only that, but I think the bill itself outlines six other provisions that we feel should be used before we get to the point of even discussing the controls.

Until we have done that, it seems to me we should not anticipate that controls are needed. With respect to the Federal Reserve Board, I do not know whether you have had an opportunity to read that section of the bill, but I think we do provide a provision——

Mr. **Fraser.** They have to report to you but there is nothing in that report that requires them——

Mr. **Hawkins.** The bill says that they must fully justify any substantial variation from the President's goal and the recommendations contained in the bill.

That, at least, I think, goes a long way towards accomplishing what you want. It does not take away from them their complete independence.

Mr. **Fraser.** Dr. Bernstein will come down and tell you about that.

Mr. **Hawkins.** That is better than to come down and justify his position——

Mr. **Fraser.** I think the provisions in the bill are important.

Mr. **Hawkins.** Dr. Bernstein testified before a Senate committee and he indicated that if we were to give him a goal, that he would follow that goal. So, this is an attempt to give him such a goal by which we could measure the performance.

I think that is about as far as we have felt constrained to go at the present time. What I said, however, I think, will not subtract from my contribution—from the contributions which you have made in this field and the great support which you have given to supporting the bill.

I think he probably would agree with me that even in its present form, if we can get this bill passed this session, we will have gone a long way towards achieving the goal of full employment.

Mr. Fraser. The conceptual framework would be in place. That is terribly important. We will not have finished the task at that point.

Mr. Hawkins. Obviously, I would be the last to suggest that this is the completion of the task. I think it is the beginning.

Mr. Fraser. Right.

Mr. Hawkins. Thank you.

Mr. Daniels. I recognize the gentleman from Washington, Mr. Meeds.

Mr. Meeds. Thank you, Mr. Chairman.

Again, I do not have any questions but I want to commend the gentleman from Minnesota for an excellent statement, giving us some excellent, factual material and also a good concept.

I would like to particularly commend him on his recognition that this bill is not self-executing, that indeed it will take further action by the Congress.

I would like to commend to him the Young Adult Conservation Bill which I think he is a cosponsor of, which will begin to carry out the mandates of the unemployment problems, and which would be a replica or at least fashioned after the old CCC concept of the thirties. We also have that bill and we hope to mark that up the same week that we mark this bill up.

Mr. Fraser. Thank you, Mr. Chairman.

Mr. Daniels. On behalf of the committee, I want to thank you for your appearance and your constructive testimony.

[The prepared statement of Mr. Fraser continues at this point:]

Prepared Statement of Hon. Donald M. Fraser, a Representative in Congress From the State of Minnesota, on Behalf of Americans for Democratic Action

Mr. Chairman, Members of the Subcommittee, I appreciate this opportunity to appear before you on behalf of Americans for Democratic Action.

ADA strongly supports the Full Employment and Balanced Growth Act of 1976. For the first time in 30 years, this legislation offers the American people a chance to pursue economic policies that will bring us closer to full employment, full production and a more equitable distribution of income, goods and services.

Before outlining our views on the Full Employment Act, I would like to summarize our recommendations:

First, the 3 percent adult unemployment target should be replaced by the guarantee of a job for every individual who wants to work.

Second, the four-year time frame for reaching full employment should be reduced to two years.

Third, additional legislative mechanisms requiring the President and the Federal Reserve Board to help implement the goals of the Act should be included in the final bill.

Fourth, national and regional advisory boards should be established to help insure citizen participation in the development of the full employment plan.

Fifth, standby price and wage controls should be established to help control inflation.

The Full Employment and Balanced Growth Act of 1976 is possibly the most crucial piece of legislation before the Congress. ADA supports a total national commitment to a national full employment policy—a plan that, through joining the resources and efforts of both the private and public sectors, ensures a job at prevailing rates for every American able and willing to work. Central to this bill is the ideal of full employment. Although many of the bill's concepts are often assumed to be nationally acceptable goals, here, for the first time, we have a vehicle that could establish the goals and programs of full employment within a strong legislative framework: specific economic goals and timetables prepared by both the President and the Congress; closer coordination between the Executive and Congress in setting spending and tax levels consistent with full employment goals; full employment being the primary goal of fiscal and monetary policy; planned econmic development rather than crisis oriented policies; development of the maximum number of private sector jobs coupled with a commitment to provide public service employment that supplements those developed by private industry; key consideration and resource allocation being directed at those segments of society in greatest need; and development of job possibilities that provide opportunities and production levels that promote greater equity.

This bill could provide the mechanism needed to move us away from economic policies that are no longer applicable to present fiscal problems and could set the groundwork for establishing employment goals and programs that will be truly responsive to employment needs in this country.

The financial and social costs of adhering to theories that maintain high levels of both unemployment and inflation can no longer be tolerated. What economic policy has witnessed during recent years is an attempt at a tradeoff: high inflation for low unemployment or a lower inflation rate coupled with high unemployment and low production. The fallacies of these assumptions are now coming home to roost as we continue to suffer from extended periods of high inflation and high unemployment. We are only now beginning to pay the high price, in terms of human hardships and economic waste, that is the legacy of the policy we have pursued over the past years of price stability achieved through continued high unemployment. In 1975, our inability to establish full employment in a full economy cost the country a $230.1 billion (in 1975 dollars) loss in total national production had we been at 4 percent unemployment. If we continue to puruse present economic policies, the impact of the quest for price stability at almost any cost is critical. With the same low annual growth rate over the next five years, as that experienced since 1953, the economy will forfeit about $1.15 trillion by 1980 in total national production: $602.5 billion in wages and salaries; $9,525 for an average family income; a loss of $239 billion in the area of private business investment; and a $410 billion loss in public outlays for goods and services. Without firmly and quickly moving toward a full employment/full production economy, the man/woman years of employment opportunity lost by 1980 will be about 15 million. Not only are the human and social costs suffered by this country in the name of price stability too great, they are also unnecessary.

We have the figures to document the gross failures and weaknesses of policies moving us further away from full employment in a full economy. But there are less tangible but equally damaging outgrowths of the high unemployment/high inflation syndrome. First, with a large number of people forced outside the labor force, depending either on unemployment compensation or some other form of government income benefits, we reach a level of even greater disparity in income distribution—one that begins to see even more households living at levels we as a country have declared substandard. In addition, the loss in federal revenues that results from high unemployment coupled with continued focus on high defense spending and productive means there is less and less money being channeled into providing basic social services to the nation. Production below full production levels and a sharp drop in potential outlays has proven to be instrumental in maintaining a schedule of national priorities which ignores the groups that really need to be given attention and existing and new programs that need substantial financing.

FULL EMPLOYMENT

The concept of full employment embodies much more than availability of jobs. The bill defines full employment as achieving a state where there are useful and rewarding employment opportunities for all adult Americans willing and able to work. Reaching full employment means not only matching the talents and abilities of individuals with specific areas of work but also developing employment possibilities consistent with national needs and priorities. Full employment means full production of goods and services and full purchasing power. The concept of a full economy must be firmly rooted in a pattern of distribution of goods and services consistent with domestic and international needs.

Mr. Chairman, the Administration would have us believe that reaching their predicted level of 6.2 percent unemployment by the end of the decade is an admirable achievement. They would have us believe that the commitment to full employment is there and the present employment policies and programs are providing the services and incentives that will reduce unemployment to an "acceptable level." One of the major reasons the Administration cites in its opposition to H.R. 50 is that the policies embodied in this bill would be duplicative of existing programs administered at the local level and such an effort could only result in "wasteful overlap, conflict between programs and approaches to a common problem and massive confusion on the part of the unemployed." Can we seriously accept the President's commitment to full employment in light of the following statistics: an overall unemployment rate of 7.6 percent in February 1976; a 14 percent unemployment rate in the state of Rhode Island; a 49.7 percent unemployment rate for urban black youth; and a FY 77 Presidential economic plan that will only reduce unemployment to about 7 percent by the end of this fiscal year? We have learned the hard way that we cannot look to the Administration for effective leadership in the economic sphere. Congress must take the critical steps necessary to put the nation on the road to economic recovery and full employment.

For the first time in 30 years the Full Employment and Balanced Growth Act offers us real hope—hope that we can quickly establish sound and responsible economic policies and programs that are essential to achieving full employment and full production. Supporters of the 1946 Employment Act knew the bill fell far short of having a long-term effect on manpower utilization in this country. The Act now before the Subcommittee moves us light-years ahead toward fully realizing the employment goals first addressed in the 1946 Act. The 1976 Employment Act offers us an opportunity to build into the system the very courses of action necessary to ensure a job for every able and willing individual at fair wages. ADA is, however, firmly committed to the concept of full employment to completely embrace legislation that does not really fully come to grips with the economic problems we are now facing and does not legislate avenues of pursuit to achieve full employment goals. Little is achieved if we enact legislation that, even with its ideological strengths, will take another 30 years of debate and amending to become a fully effective mechanism. The basic structures are clearly laid out in H.R. 50; we feel that with a few amendments the 1976 Act can become the powerful tool we so badly need to realize these goals.

THE RIGHT BUT NOT THE GUARANTEE

We have the potential for reaching a full employment/full production state; offering an unemployment percentage that is any greater than this is unacceptable. The goal of reaching 3 percent unemployment for the adult population within four years does not move us fully or quickly toward achieving a full employment/full production situation. Rates of unemployment are virtually meaningless. The full employment goal established by the Act should mean achieving that level which allows every individual wishing employment to have a job. Due to occupational, industrial and geographic mobility, some level of frictional unemployment will always exist. Achieving the minimum level of frictional unemployment is considered a long-term goal of the Full Employment Act—a goal that, under the present bill, lacks specific methods of implementation. Reaching a 3 percent adult unemployment rate includes more than just the frictionally unemployed. It is relatively easy to legislate the right to a job, but that right means nothing without measures that guarantee that every individual who wants a job will be able to find employment. By setting a 3 percent adult goal, we can be sure that more than the frictionally unemployed will be without jobs. Full employment should be defined as the opportunity for employment at wages commensurate with the job for all individuals able and willing to work. Without specific mechanisms to bring the real rate below 3 percent, we fear that the 3 percent goal will become the accepted level of unemployment. If this happens, some type of needs test will be developed and specific segments of the population will be excluded from the workforce. It is only too likely that those groups kept out of the job market will include large numbers of women and individuals with adequate financial resources.

Without setting a specific goal for non-adults, what happens to the young person looking for a job? By only including adults in that percentage, we can be sure that the unemployment rate for the entire population will be significantly higher. The level of unemployment for young adults and teenagers has always been higher than those for the adult population. In January 1976, while the overall unemployment rate for adults was 5.4 percent, the young adult (20–24) unemployment rate was 12.6 percent and for teenagers (16–19) it was 19.9 percent. Nearly one-half of the number of unemployed individuals are under 25. There are several economic problems unique to the young unemployed—the lack of prior job experience to develop marketable skills; ineligibility for unemployment compensation; and existing financial responsibilities as heads of households without having accumulated savings. But the psychological and social implications of a large unemployed segment of the population are also great—the frustrations and bitterness of disappointment and idleness are rarely channelled into constructive directions. The Full Employment Act recognizes the special circumstances and problems of the unemployed youth and sets a very sound framework for a comprehensive employment program—combining existing manpower programs with the creation of new youth-oriented job opportunities. Because the bill does not set specific target goals, both interim and long-term, and does not provide specific measures ensuring implementation of youth employment policies and full utilization of youth resources in our economy, we will continue to offer empty promises to a critical portion of our population.

Finally, we are now considering a time frame of four years to bring unemployment down to a 3 percent level. With full and immediate implementation of the supplementary counter-cyclical and structural employment policies, the 3 percent interim goal can be realized within a two-year period. WPA provided 3.5 million jobs when the labor force was only 60 percent as large as today's and did it quickly. Through prompt effectuation of Title II provisions, reducing the time frame by two years will not be any less practical or involve greater outlays than achieving 3 percent adult unemployment over a four-year period.

PUBLIC VS. PRIVATE

Before recommending several other changes, I would like to speak to one area of the bill that receives a lot of critical assessment. Many opponents of the 1976 Act give a great deal of emphasis to the federal government's provision of public service jobs. The major focus and intent of the bill is to offer the types of economic stimulus necessary to maintain a high level of economic activity so that jobs will be available in the private sector. Monetary and fiscal policies are to be coordinated to maintain purchasing power so private consumption can stimulate business investment. Through more adequate economic planning and more effective use of training and employment programs, the private sector will have greater potential for dealing with structural and cyclical unemployment.

Beyond this, however, responsibility for reaching the full employment goal falls on the government, either through grants to state and local units to create job programs or through public service jobs. The concept of public service employment serves a much needed dual purpose—the actual creation of jobs for those individuals who have exhausted all other possibilities without securing employment and the creation of a job reservoir that importantly fills national needs not being met through the private sector. The vision of hundreds of individuals roaming the streets and parks of our cities raking leaves is empty when one realizes the real gaps in the provision of goods and services public service jobs could fill—in education, health, child care, conservation, the arts and the general quality of life.

ECONOMIC PLANNING

One of the major components of this bill is the framework it sets down for comprehensive economic planning. We can no longer sanction the development of piece-meal, crisis oriented approaches to economic planning and manpower utilization. Both the Congress and the President must actively assume responsibility for developing those areas of private and public industry which will benefit from expansion and offer practical and useful employment possibilities. High consideration must be given to those areas of the country and those segments of the population experiencing the greatest need.

In enacting H.R. 50 we must be sure that there will be compliance, in all spheres, with the provisions. The strongest vehicle available to this country to ensure a turn-around in current economic and employment situations and a reordering of our national priorities is the federal budget. It is only by making appropriation levels truly responsive and by creating legislation setting out new programs to meet presently unmet or inadequately met demands that we will be able to achieve the level of employment and production necessary to sustain a full economy. The bill establishes detailed procedures to be followed by both the President and the Congress in order that full employment goals are used as objectives in appropriation decisions. As the bill now stands, however, these admirable and necessary provisions will do little more than offer possible guidelines in developing budgetary policy.

The key participants in establishing economic policy in this country are the Congress, the President and the Federal Reserve Board. Each of these elements is brought into the full employment process as established in the bill. We would like to think that the involvement of all these units would produce a coordinated, balanced policy. At no point in the process, however, are there legislative mechanisms ensuring that full employment, production and purchasing goals are adhered to as the annual budget is put together.

The role of the JEC should be instrumental in targeting areas of need. Under the bill, the JEC is required to submit to both Budget Committees numerical goals for employment, production and purchasing power necessary to achieve target levels of employment and recommendations of fiscal and monetary policy in keeping with these goals. Obviously, such recommendations could provide the arena for the development of a more responsible budget. But without also granting the JEC the authority to recommend priorities in terms of employment utilization and appropriation levels, there is no assurance that achievement of these goals will be pursued along lines consistent with national priorities.

In developing the first concurrent resolution, the Budget Committees are not bound to hold to either the JEC's goals or the President's economic plan. Upon receipt of the JEC report, the Budget Committees will develop an economic plan presumably using the recommended JEC goals necessary to achieve full employment and production. This plan, which would be included in the first concurrent resolution, would then be used to guide the committees as they begin the appropriations process. While the Act stresses the need for Congress to use these goals in debating and establishing long-term priorities, compliance with the JEC recommenaations is not mandatory. If the concurrent resolution contains modifications of these recommendations, all the Budget Committees are required to do is explain the reasons for the changes; as the bill is currently written, there is no mechanism requiring the Budget Committees to use the recommended goals and the JEC has no avenues of recourse to ensure these goals are met.

INITIATIVE STILL WITH THE PRESIDENT

Adoption of the Congressional economic plan embodied in the concurrent resolution does not bind either the President or the Federal Reserve Board to pursue courses of action consistent with the goals included in the Congressional plan. Having reviewed the Congressional plan, the President is free to take "whatever action deemed appropriate." The initiative for setting budgetary policy, therefore, still rests with the Administration. The absence of Executive compliance with the Congressional plan leaves the door wide open for a continuation of the kinds of budgetary battles we have witnessed over the past years between the President and the Congress and for continued use of the Presidential veto in the name of economic waste. The sections of the bill setting out responsibilities for the Federal Reserve Board represent an enormous step forward toward more responsive monetary policy. For the first time, the Board would be required to submit, to the President and Congress, the monetary strategies it plans to pursue and justify those areas that are not in line with the economic goals and timetables proposed by the Congress and the

President. The President can exert a certain amount of pressure on the Board to bring its policies into greater harmony with employment and production goals, but in no way *must* the Board coordinate its policies with Presidential/Congressional policies. Requiring detailed explanations as to why the Board feels compliance is unfeasible does move us much closer to coordinated and planned economic development. The assumption that the most sound policies and goals will be achieved if there is greater coordination and cooperation among these three units is not only valid but necessary. We do feel, however, that with the addition of stronger language mandating this cooperation by both the President and the Federal Reserve, the goals and priorities of the bill will be fully realized.

CITIZEN PARTICIPATION

One of the basic elements essential to the success of H.R. 50 is the involvement of a large number of individuals and organizations in the development of goals and timetables. The development of a number of alternative strategies and goals through a national public debate is key to ensuring that final policies and programs will really focus on the most crucial areas of demand. Even with all the new safeguards built into HR. 50, the absence of strong citizen participation throughout the entire process of setting goals and priorities leaves us with the possibility that economic policies of the future will continue to be unresponsive to our economic and social failures of the past. The very existence of a national public debate and the range of alternatives that would be generated from such a forum is essential to establishing the grass roots influence necessary in the development of effective and responsible programs and policies. Presently, the bill allows for the option of public hearings initiated by state officials after governors have received the President's final economic plan. We know only too well the lack of impact any proposals coming out of such a gathering will have. The final bill should include language that ensures creation of regional boards with access and input into the entire developmental process.

WAGE AND PRICE CONTROL

Finally, on the issue of wage and price control, we would like to ensure that such controls would be instituted in times of unacceptably high inflation. Such controls must particularly apply to administered industries where the degree of control over specific markets consistently results in prices and profits completely out of line with other production units. Historically wage increases or decreases have followed the ups and downs of prices. Full consideration must be given to the view of labor as wage controls of the past, particularly those instituted by the Nixon/Ford administrations, have proven to result in greater income inequities. We do beieve that, if fair wage controls are combined with strong controls on prices and profits, labor unions will be able to support such anti-inflationary measures. The basic focus must be prices and profits which can be effectively held steady or reduced when controls are temporarily and selectively applied. While wage controls may be applicable under certain conditions, we must make sure that an individual's spending power is not diminished by a rise in prices.

CONCLUSION

ADA strongly supports the concepts and spirit embodied in the Full Employment Act. For the first time in 30 years this offers the American people a chance to begin pursuing economic policies that will bring us to full employment, full production, a high level of prosperity and greater equity in distribution of income, goods and services. But the bill must also present all units involved with complete and decisive methods of obtaining these goals. We commend Senator Humphrey and Congressman Hawkins for developing realistic guidelines to move us rapidly toward the goal of establishing the right to work. The ideal of full employment must be achieved quickly before the financial, social and psychological ramifications of high unemployment become too deeply rooted. But unless the suggested changes are incorporated into the bill, it too will fall short of achieving the guarantee of a job at fair wages for all willing and able Americans. We can no longer pass legislation today whose effects will not be realized for years to come. In passing the 1976 Full Employment Act, let us be sure the guarantee of the right to work is realized within the time frame established in the bill.

Mr. DANIELS. Our next speaker is Hon. Bella Abzug, Congresswoman from the State of New York.

STATEMENT OF HON. BELLA ABZUG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Ms. ABZUG. Good morning. I am glad to have the chance to be here at last, although I enjoyed listening to both Dr. Greenspan and my colleagues on and off the committee. I ask unanimous consent to insert my full testimony into the record at this point.

Mr. DANIELS. Is there any objection?

[No response.]

Mr. DANIELS. Hearing none, it is so ordered.

Ms. ABZUG. I particularly want to compliment Mr. Hawkins who has labored so long. I hope we can realize now the final passage of the bill, particularly since the need has been so amply demonstrated.

I have a remarkable amount of admiration for the number of places he has been and the number of efforts he has made to make this a popular issue. I think the only way we are going to get this legislation passed, even in its present form, which I have some disagreements with, is if it is popularly understood, and if members of Congress hear about it from their constituents, which I assume they will.

I agree with some of the testimony given previously. I just want to go through a few things to give my own reaction. Both of the witnesses before me talked about a more generalized view of the right to full employment. I agree with that.

The reason I agree with that is that I think the focus of full employment for the Nation is a focus, really, that has to be emphasized for those who have been at a particular disadvantage in the labor market.

There are factors in this bill which may not make that possible, oddly enough. Those people are women, minorities, youth, and older persons who have suffered the effects of the recession most acutely.

You have probably had lots of people reel off statistics, so I am not going to waste your time with it. As a result of a scarcity of unemployment, the gains that disadvantaged groups have made in the past decade are being quickly eliminated.

Women and minorities have only recently gained access to the nontraditional occupations. They have the least seniority and thus they are the first to be laid off in hard times. For example, New York City recently lost half of its Spanish-speaking workers, 4 percent of its black males and one-third of its female workers. They were just wiped out of the employment market.

So, this bill, if it is going to do anything, has got to reach that market. Now I think that the bill as it now is in process has made some very important improvements.

It has been strengthened by the addition of fiscal and monetary mechanisms to insure the balance of economic growth and to avert uncontrolled inflation; it incorporates some of the budgetary and credit allocation mechanisms suggested by the current debate over national training; and the provisions for countercyclical programs and grants in State and local governments is very important.

Having dealt specifically with that issue in my work on the Public Works Committee, I am glad it is in this bill.

Since the Hawkins bill is intended as a commitment to the expansion of economic freedom for all Americans, my greatest concern about the bill at this point is whether it does provide that.

Now, I am making several points which were made previously, plus some additional points. I am very aware of the fact that we want to get this legislation out and get it passed, but I do not want to be in the position where we have not really together made every effort we can to make sure that the people we really have to strike at are going to be benefited under this bill. It would be cruel, if after we passed it it did not really benefit these groups.

I feel that the definition of the 3 percent unemployment goal is a weakening of the bill. Full employment was defined in the previous draft as the number of full-time and part-time jobs to be provided for all adult Americans able and willing to work.

This definition has been circumscribed. First the addition of the phrase "seeking to work," and the elimination of the reference to those not in the official labor force perpetuates, in my opinion, an artificial distinction between the active work force and the undifferentiated work force.

This group, for example, includes a minimum of 4 million adults who have dropped out or have been pushed out of the labor force. It also includes the groups I mentioned before.

Second: The definition assumes that it is impractical to reduce unemployment below an official 3-percent rate, and that the final goal is 4 years.

There are a number of difficulties with the use of 3 percent as an index of full employment. We know that when that is the overall figure, it is much higher among these disadvantaged groups.

Now, this problem has been raised, and you have heard experts on this subject, and I do not pretend to be an expert, except that it is a subject I have been dealing with, and is an interest that I have had for many years.

I read some of the testimony of Stanley Moses and Bertram Gross, I think—I do not know—maybe it is the Equal Opportunities Subcommittee—and there is a lot of information on that issue.

I do a small rundown of some of the actual statistics here which show that when you have unemployment at 3.3 percent, which is the rate for white males, the female white unemployment is higher—4.2 percent.

The statistics for black workers, male and female, were significantly higher with black males experiencing 4.9 and black females 6.1 percent. The official rates, do not take into consideration the massive teenage rate of unemployment.

So, what good is a national unemployment goal of 3 percent? It provides, this bill does, that the President develop youth employment programs, but it provides no ultimate goal to reduce youth unemployment.

A tolerable average level of unemployment at 3 percent would mean that 6 percent is tolerable for minorities and over 12 percent is tolerable for teenagers. These groups will never reach even a

3-percent unemployment if that is to be the ultimate average goal, as I see it.

I have been dealing recently with the unique problems of over the age of 40. They are very unique and their problems are ignored. Despite acts which we have on the books, these workers face considerable barriers to obtaining new employment.

In 1975, unemployment averaged 1.6 million for the middle aged and the older workers. This is probably one of the highest levels in history. It is estimated that a million formerly employed men and women between the ages of 40 and 62 have given up the active search for work.

I have some legislation, and others I am sure have, that I hope will deal with that problem specifically, but I think that this element is missing in the bill.

In the prior discussion it was stated that we have met the challenge in wartime but we cannot do it in peacetime, of reducing unemployment beyond 3 percent. I think if you have a national program where there is a national plan and a national will, that it can be done.

That is what we had during the war. We had a national program and we had a national will. The country was united. That is one of the ways in which you can accomplish these things.

As a matter of fact, I find it very threatening to hear people say that if this is passed that "people will come out of the woodwork looking for jobs." This is philosophically something inherent in some of the changes, I think, that maybe others feel are necessary to pass the bill, but I think we should not yield to this kind of thing because to the extent this is true, that people are going to come out of the woodwork looking for jobs, it is a combination of how we have lived and what our past policies of neglect have been.

We have an opportunity to revitalize our society, and so I think we have to do that. I think that the right to full employment should be extended to all Americans able and willing to work, and that 3 percent, if we have to have it, be defined as an interim goal.

That does not preclude other efforts, rather than to make it the final goal. The effect of limiting the right to a job has been mentioned by two of the witnesses before me. Such priority criteria are contained in section 206(e).

All of those factors which are included will work against the groups that I have talked about who are really desperately in need of this kind of legislation. For women in particular, section 206(e) could be devastating.

Women seek work for the same reasons that men do, out of economic need. They have entered the work force in increasing numbers and are just beginning to gain access to new fields and higher positions than in the past.

Seniority positions, as I mentioned before, that exist mainly because jobs are not guaranteed, have worked consistently against them. As I indicated earlier, in New York, one-third of the women municipal workers have already lost their jobs.

More and more married women have entered the labor force. In 1974, 58 percent of all workingwomen were married and living with their husbands. Women could be denied the right to work here.

Older workers and young people and minorities could also be harmed by section 206(e) because they rarely have dependents to support and they would therefore receive less of a priority for employment.

In 1974, 10 percent of all working families had some member other than the wife as an additional worker, probably a child or an older relative who contributed income to the family. This provision would deprive such persons of equal access to employment opportunities, and so on.

I think that the means test, which is essentially what we have here, is something you have to consider very seriously in the markup. I think this section has to be deleted and has to be replaced with a locally administered appeals process for those who have been denied the opportunity of obtaining a job.

I would be glad to try to produce some language on some of the proposals that I have here. The bill, I think, does not provide enough opportunity for participation by localities in determining which jobs could be established in their area under the measure.

I urge the subcommittee to require reports from Governors and to mandate the establishment of permanent local advisory boards which will hold regular public hearings, insuring local group participation.

We deal with this problem in many ways, how you decide what the needs are in a locality. Some of the legislation I have been involved in in public works is in economic development. We try to have more involvement of the locality projecting the actual percentage dates, and so on, and then have the State of Federal Government merely certify its accuracy.

If you eliminate the participation of local advisory boards, I think you are not going to be doing as well in terms of really getting a proper estimate of the problem. That is one of the other things I would like to suggest.

I think that participation in addition to industry, agriculture, and labor, has to be augmented by participation of State and local governments, consumer interests where they are not mentioned, and women, minorities, and the other interest groups that I mentioned, including the handicapped, older workers, public interest and community groups, in all of these sections.

I think we should establish a full employment research bureau and an annual public evaluation of solutions to problems in implementing full employment.

I think we have to find a way in this legislation to mandate coordination of all agencies. This may not be too hard because it is just language, but it should ultimately end up in regulations.

All executive agencies and independent commissions in addition to the Federal Reserve Board should adjust their goals so they conform with the national priority of full employment.

There are specific changes regarding the nature of job priorities that we should be considering. There is a lot of discussion that could take place, but there really is not too much time now.

But I think we should include mass transit, artistic, cultural, and recreational activities as areas for priority job programs. Since we have had so many problems with the question of where our fundamental problems of dislocation take place and so on, we should really try in this legislation to deal with one of the key areas, which is the conversion of some of our military facilities.

I think that some of these proposals can be incorporated into the markup without creating a problem of passage as was expressed, understandably, by Mr. Hawkins. I think that we, under two conditions, are confronting a complicated issue.

One is the present policy of the administration, that there is not going to be anything done on full employment. Hopefully under the changed administration we are going to get some new life on this subject.

I think the legislation has to reflect that. Otherwise it is not going to move us very far because it has problems of implementation. I think it is going to create, now that it is moving to markup and actually going to the floor, a debate and discussion and a deepening of the understanding of some of the problems which this bill has so effectively tried to project.

I think it is time we move it out into the popular arena as we are doing. As an original sponsor of the bill, I know how hard Mr. Hawkins has worked on that.

I have from time to time put my shoulder to the wheel and tried to help get that over to a lot of people. We have to do a much bigger job on it. I think we can make this bill work.

Mr. Daniels. Bella, on behalf of the committee and personally, I want to thank you for your very fine and constructive comments today. I would suggest to you that with regard to the amendments that you have proposed, that you submit them to the committee.

We intend to have markup immediately following this recess. So, if it is possible for your staff and yourself to get them over to us, I assure you we will give them due consideration. I have no questions to ask.

Mr. Hawkins, do you desire to ask any questions?

Mr. Hawkins. Just a brief comment. I certainly appreciate your contributions. I know you have contributed a great deal to the formulation of this proposal, for which I am personally very thankful.

I would just simply like to assure you, Ms. Abzug, that 3 percent is not a goal in the bill. It is simply a transitional target. It is stated as such. The 4 years is not an absolute time element.

It simply states that an unemployment rate not in access of 3 percent is to be reached as promptly as possible. Now, this may not be as precise as some may like, but I think it is not the goal of the bill. The goal of the bill is stated elsewhere in the bill. Certainly I agree with you on what that goal should be, and I think we are in total agreement on that. I think it is a matter of semantics and misunderstanding rather than any difference between your view and that of the authors of the bill.

Again, I wish to thank you for your contribution. I think as we begin to move the bill, we certainly will talk with you about some of the suggestions that you have made, many of which I think are very excellent and very constructive.

Ms. Abzug. Thank you very much.

Mr. Daniels. Thank you for your appearance.

[The prepared statement of Ms. Abzug follows:]

Prepared Statement of Hon. Bella Abzug, a Representative in Congress from the State of New York

Mr. Chairman, members of the subcommittee, I welcome this opportunity to testify before you on H.R. 50, the Full Employment and Balanced Growth Act of 1976. I would like to commend the authors of this bill, Rep. Hawkins, Rep. Reuss, and Senator Humphrey, for their commitment and fortitude. They have developed this bill, once considered impractical, into a piece of legislation that is now recognized as the best method for dealing with our unemployment crisis. Full employment is no longer a far-off vision. It is on the agenda of this Congress. It is a central issue in the presidential campaign, and, in every public opinion poll, it is the stated objective of most Americans.

In 1944, President Roosevelt presented an economic bill of rights to Congress. Legislation to provide the sixty million jobs needed for a civilian economy at that time was never enacted. The bill that was passed. The Employment Act of 1946, established policies to promote more employment. This measure established the structure for formulation of federal economic policy and a new direction for our Nation. It contained the foundation for most of the Hawkins-Humphrey bill. In recent years, we have suffered under an administration that has deliberately promoted mass unemployment as a matter of policy. We have had to wait a long time for the next step to fulfill our dream of a guaranteed right to a job for what now approaches 100 million workers.

Unemployment is the central cause of our domestic discontent, our fears and suspicions, our debilitating urban crisis. It casts its shadow of hopelessness over the young and old, minorities and women, skilled and unskilled. A program to provide millions of jobs for our people is the long-awaited solution, and it is finally within our grasp.

To the compassionate perspective of this bill, we should contrast the views of the present administration. Last week, Assistant Secretary of Labor William H. Kolberg warned you that this bill "would create expectations that cannot be met." He cautioned that "the guarantee of lucrative employment . . . would be attractive to many individuals who would not otherwise be in the labor force." And he made clear that this administration prefers to deal with the effects of unemployment through the veto of the public works programs passed by the Congress and through the food stamps, unemployment and welfare programs that the President regularly denounces. While endorsing the abstract "goal of full employment" the Ford Administration continues through vetoes, regulations, and public statements, to impede any steps to realize the goal.

We have to face the administration's charges squarely, and respond that we welcome the challenge to provide jobs for all Americans. We encourage those presently outside the workforce to abandon their poverty and hopeless despair. To those who are "not actively seeking employment," and to those who never expected to ever find a job, we can say, "there is a place for you."

Unemployment has an extraordinary cost, both in monetary and in human terms. It has been estimated that every percentage point of unemployment costs the economy sixteen billion dollars in lost revenues. Unemployment is widely regarded as a primary factor in crime, mental illness, family breakdown, and countless other manifestations of human suffering which result from unwilling idleness.

I would like to focus on the significance of full employment for the Nation, particularly those who have been at a disadvantage in the labor market in the past. In the first quarter of 1976, unemployment has finally begun to decline; however most realistic forecasts indicate that we will continue to suffer intolerable levels of unemployment and great production deficiencies for many years to come—unless we undertake fundamental reform.

Women, minorities, youth, and older persons have suffered the effects of the recent recession most acutely, and these groups have the most to gain from a commitment to true full employment. Unemployment among white women is now 7.5%. Among black women, approximately 10% are now jobless. More alarmingly, unemployment among non-white teenagers is now 35.9%. These figures are in sharp contrast to the 5.1% unemployment rate among white males in the labor force. In addition, these figures represent only officially reported rates of unemployment. Figures which include those who have become discouraged in their search for work would be much higher.

As a result of a scarcity of employment, the gains that disadvantaged groups have made in the past decade are being quickly eliminated. Women and minorities have only recently gained access to non-traditional occupations, yet they have the least seniority and thus are the first to be laid-off in hard times. For example, New York City recently lost half of its Spanish-speaking workers, 40% of its black males and one-third of its female workers. High unemployment has a disproportionate impact on women and minorities.

While we have been writing, talking and organizing support for H.R. 50, few of us in Congress, I believe, have sufficiently recognized the impact that jobs for all Americans will have on every facet of life. With passage of this measure, we will have to cope with new pressures on our institutions. We will have to continually improve and respond as we gain experience. Since I know that the sponsors and cosponsors have considered the successive drafts of H.R. 50 as "bills-in-progress," as starting points for a process of legislation and social transformation, I would like to address myself to both the improvements that have been made the improvements still to be made in the recent March 10, 1976 revision.

This measure has been strengthened by the addition of fiscal and monetary mechanisms to ensure balanced economic growth and to avert uncontrolled inflation. However, I have never accepted the argument that full employment is inflationary. The policies that have followed from this point of view have been immensely destructive. Dr. Leon Keyserling has convincingly shown that the best route to a balanced budget is through full employment and tax reform. It is obvious that with sustained prosperity, increased investment in our economy and full utilization of our productive capacity, our society can produce enough goods so that rising demand can be met with increased goods and services. And with full production, we will have lower prices. H.R. 50 strengthens the ability of the executive and legislative branches to exercise some long-needed coordination and control through the available economic tools. It now incorporates as well some of the budgetary and credit allocation mechanisms suggested by the current debate over national planning. Although the bill as written provides no means to examine or control the plans, prices and profits of our major corporations, whose monopolistic practices have greatly contributed to inflation, the bill takes major steps toward democratic national planning for human needs.

The provisions for counter-cyclical programs and grants to State and local governments, for specific regional and urban programs, and the comprehensive youth employment provisions, are all welcome improvements. They go a long way toward meeting the needs of specific parts of our society that have been terribly wounded by the prolonged recession.

Most of these provisions are important additions to H.R. 50. However, other equally important provisions contained in the earlier drafts have been removed. I would like to suggest eight additions that will further strengthen the bill and urge this subcommittee to reconsider some of the provisions in these earlier drafts which are essential to achieving a full employment policy.

At the heart of the Hawkins-Humphrey Bill is a commitment to the expansion of economic freedom for all Americans. My greatest concern today is whether this bill firmly establishes the right of full employment for all, or whether it is limited to some Americans. I am equally concerned that this bill provide full administrative and legal machinery to ensure that this right becomes a reality.

The previous draft contained a clear definition of full employment: Sec. 3(b)(1): "Full employment goals, defined as the number of full-time and part-time jobs to be provided for all adult Americans able and willing to work (including those not in the labor force as customarily measured) . . ." In the new revision, this definition has been circumscribed in several ways: First, the addition of the phrase "seeking to work" and the elimination of the reference to those not in the official labor force perpetuates the artificial distinction between the active workforce and the undifferentiated, general labor pool. This group includes a minimum of four million adults who have dropped out, been kept out, and been pushed out of the labor force. It includes women and minorities who have been discriminated against and older workers whose desire for continued employment is not seriously recognized.

Second, the definition now assumes that it is impractical to reduce unemployment below an official 3% rate. 3% is no longer an interim target for the first 18 months, but the final goal to be attained within four years and maintained thereafter.

I believe that in making these changes, the drafters have seriously undermined the basic thrust of this measure. The right of all Americans to a guarantee of some job is universally understood to be the effect of this bill. It is not the right of *some* Americans to a job. It is not "full employment, but . . ." It is plain and simple: full employment for *all*.

There are a number of difficulties with the use of 3% as an index of full employment. Even when the overall unemployment figure is 3%, it is much higher among certain disadvantaged groups. This problem was raised to the Equal Opportunities Subcommittee a year ago in testimony by economists Bertram M. Gross and Stanley Moses. In Jan. 1975, when the official unemployment rate was 8.2%, the addition of involuntary part-time employees, and discouraged workers revealed a "real unemployment" rate of 16.5%. It raised the real unemployment total from 7.5 million to 16 million. In 1951, when unemployment was 3.3%, the rate for white males was 2.6% while the rate for white females was 4.2%. The statistics for black workers, male and female were significantly higher with black males experiencing 4.9% and black females 6.1%. In the mid-Sixties, the last time the unemployment rate was below 4%, the "official" rate for non-whites was over 6%, and for teenagers over 12%.

Half of the black teenagers in our central cities are now unemployed, and they are bound to ask, "what good is a national unemployment goal of 3% for us?" This bill directs the President to develop youth employment programs but it provides no ultimate goal for youth unemployment.

A "tolerable" average level of unemployment at 3% would mean that 6% is "tolerable" for minorities and over 12% is "tolerable" for teenagers. These groups will never reach even 3% unemployment if that is to be the ultimate average goal.

Moreover, the unique problems of the over 40 worker are ignored. Despite the 1967 Age Discrimination in Employment Act and the on-the-job experience which these workers have, these workers face considerable barriers to obtaining new employment. In 1975, unemployment averaged 1.6 million for the middle-aged and older workers. This is the highest level in history. It is estimated that 1 million formerly employed men and women between the ages of 40 and 62 have given up the active search for work. Despite these grim statistics, the over 40 unemployed have been consistently ignored by Federal programs. To meet the special needs of this segment of our society, I have introduced H.R. 12375, the middle aged and older Americans Act of 1976 which provides for training, counseling, part-time and full-time work opportunities. I urge this subcommittee to consider including some provisions for this group.

The Hawkins-Humphrey Bill is both an imaginative and a realistic measure. It says that we have never tried hard enough to make our system work. It says, "We have met the challenge in wartime, so why can't we do it in peacetime?" This bill acknowledges that everyone dreams of having a decent productive job, and that the dream is valid.

I have heard the warning that if this bill is passed, "people will come out of the woodwork looking for jobs." To the extent that this is true, it is a condemnation of our past policies of neglect. We now have an opportunity to revitalize our society, and to achieve the goals we have postponed.

In the 1960's, we discovered "the other America." We made great strides in enfranchising and educating our minorities. We found that the handicapped could be employed. We found that many older Americans wanted alternatives to forced retirement, and were happier and healthier when they could continue working. We found that more and more women wanted or needed to work.

Many Americans have had to accept intermittent or part-time jobs because full-time employment is not available and more are not even counted as part of the official labor force. Throughout their adult lives, these people have carried the discomfort and blame, the distress and insecurity that are felt by the laid-off worker. Let us not be misled: these are the ones who will be overlooked in a bill that provides more employment, but not full employment. They will be employed only through a federally guaranteed right to a job. I can regretfully accept a decision to extend the period of implementation to four years; that is a technical question upon which social scientists may disagree. But I cannot see this bill limiting the promise of full employment to the official workforce. Therefore, I propose that the right to full employment be extended to all Americans able and willing to work, and that 3% be defined as an interim goal that does not preclude further efforts.

The March 1975 draft of the Hawkins-Humphrey bill made specific reference to many groups not part of the official workforce. It courageously included reference to former drug addicts and released convicts, throughout that draft, the prevailing assumption was that:

Sec. 5 (g) "From the purposes of this act, any jobseeker who presents himself or herself in person at the job guarantee office shall be considered *prima facic* 'willing and able' to work at some appropriate type and duration of work and some appropriate rate of compensation."

The effect of limiting the right to a job is seen in Sec. 206 (e) which establishes "priority criteria" to determine those most in need of employment, factors include an individual's household income, how long he or she has been unemployed or without unemployment insurance, who else in the household works, and whether the person is the head of the household. Such eligibility categories would discriminate against women minorities, the very young and the very old worker. These groups are most often denied employment opportunities and these priorities perpeturate such discrimination.

For women in particular, Sec. 206 (e) would be devastating. Women seek work for the very same reasons that men do, out of economic need and also for personal gratification. Women have entered the workforce in increasing numbers and are just beginning to gain access to new fields and higher level positions than in the past.

However, seniority provisions that exist maninly because jobs are not guaranteed have worked consistently against the interests of women. In New York City, one-third of the women municipal workers have already lost their jobs. Unemployment and underemployment continue to be higher for women than for men. In 1974, a quarter of a million unemployed women were family heads.

In recent years more and more married women have entered the labor force. In 1974, 58% of all working women were married and living with their husbands, and nearly all of the husbands were also gainfully employed. Under the terms of this section, women could be denied the right to work unless they are the sole support of their family, or they meet specified income requirements. We ought to work towards a society in which women and men do not have to compete for too few jobs.

Older workers and young people would also be harmed by Sec. 206 (e) because they rarely have dependents to support and thus would receive less priority for employment. In 1974, 19% of all working families had some member other than the wife as an additional worker, probably a child or an older relative who contributed income to the family. This provision would deprive such persons of equal access to employment opportunities.

The right to employment should not be contingent upon these factors. Sec. 206 (e) would allow the establishment of a means test to differentiate between those that "need" a job and those that do not. A majority of two-earner families have income above the poverty line. For example, in 1974, 43.4% of all married women whose family income was more than $10,000 were in the labor force. Obviously, many of these working women were not employed solely out of economic need, but rather to contribute their varied talents and skills to our productive society. Previous versions of H.R. 50 guaranteed the right to a job without exception. This version deviates so far from that prima facie assumption as to provide criminal penalties for anyone who provides misinformation in proving their need for a job. If the government is to undertake the responsibility of providing employment for its citizens, that responsibility must extend to all without exception. Anything less than that commitment is not full employment and would do little to rectify the present employment problems that disadvantaged workers face.

This provision is inconsistent with the spirit of the Hawkins-Humphrey proposal. Although it may have been conceptualized as an interim program to deal with a flood of jobseekers after the enactment of the bill, it now stands as a new government impediment to full employment. If the section is not deleted, it may doom H.R. 50 to the loss of support by disenchanted groups and individuals who were its first and most enthusiastic supporters.

There is no necessity to have a bureaucracy determine the jobworthiness of any individual if all Americans are to have the right to a job. As my second specific proposal, I suggest that the subcommittee eliminate the need for this burdensome means test by deleting this section altogether and replacing it with a locally administered appeals process for those who have been denied the opportunity to obtain a job.

The bill in its present form does not provide sufficient participation for localities in determining those in which jobs could be established under the measure. Section 104 (g) provides for optional reports by the governors. If the governors choose to comment on the full employment and balanced growth plan, they must hold public hearings. As my third suggestion, I urge this subcommittee not only to require such reports but to mandate the establishment of permanent local advisory boards with regular public hearings.

In every part of my state, there are things to be done, and people to do them. New York State's unemployment rate has stabilized at an appallingly high 10–11%. New York City's rate is over 12%. Since last July, over 150,000 state residents have exhausted all unemployment benefits. The Buffalo area has over 15% unemployment—one of the highest rates in the Nation. We want to put people to work in the Niagara region, in the Southern tier, in the St. Lawrence valley, in Westchester and on Long Island, and in the south Bronx. Our New York communities can help the Federal full employment office by pointing out the projects that are most needed.

Although many full employment goals are National in scope, they will be implemented in every City, Town, and small community in the Nation, and it is essential to design programs on a human scale.

Decentralization and community input should be encouraged. As my fourth proposal, I urge you to enlarge the specifications in sections 102 (a), 109 (b), and 109 (d), to include, in addition to "Industry, Agriculture, and Labor," participation by State and local governments and consumer interests where they are not mentioned, and "women, minorities, handicapped, senior citizens, public interest and community groups" in all these sections.

The enactment of full employment legislation will result in fundamental changes in our society. This measure will transform education and training policies, it will decrease the population receiving public assistance, it will influence the expectations of children now growing up. In short, this measure will affect every American. It would be unrealistic to take such a step without providing mechanisms for evaluating and monitoring the programs of this act as they progress.

Earlier drafts of this bill have tried to provide such mechanisms; the present draft delegates only minimal information-gathering functions to the Congressional budget office and the joint economic committee. As my fifth proposal, I suggest the establishment of a full employment research bureau, to study and report on relevant issues, and to organize an annual public evaluation of our progress. This Bureau, which would exist as a separate institution or under the council of economic advisors, would encorporate the work of social scientists from all disciplines and its functions would also include an examination of the inter-relationship between income maintenance and full employment. I suggest that provisions for this bureau replace section 207 of the present draft.

Section 102 of this bill emphasizes the necessity to coordinate the efforts of all agencies of the federal government. To make this goal a reality, as my sixth proposal, I urge you to mandate all executive agencies and independent commissions, in addition to the Federal Reserve Board, to adjust their goals so they conform with out National priority of full employment. If we accept full employment as our goal, it makes no sense to have the separate parts of our government pursuing conflicting objectives.

The purpose of the entire bill concededly is to provide jobs. However, I believe a discussion of the relative emphasis on public vs. private sector cannot be resolved at this time. I am convinced that in the long run the Federal government must begin to see itself not only as employer of last resort, but in many cases, as employer of first resort. Leon Keyserling has summarized this point:

"The Federal budget is to allocate to the people the goods and services they need that cannot be provided by State or local government and by private enterprise."

In recent years, despite massive subsidies, the private sector has again and again proven itself incapable of building decent housing for our people, providing health care at reasonable prices, finding jobs for our young people, running our railroads or providing us with low-cost energy. I believe if we are to have full employment, we will eventually need a standby job corps and other expanded public programs, but we don't have to delay this bill until there is agreement.

There are specific changes regarding the nature of job priorities that I would urge this subcommittee to consider. Section 104 (e) mandates "a full employment program that provides productive non-wasteful jobs and that reorders National priorities and employ the jobless in the production of goods and services which add to the strength of the economy, the wealth of the Nation, and the well-being of the people." In the course of summarizing vital areas of production, two vital areas have been omitted: "improvement, expansion, or new development . . . of mass transit" and "the development of artistic, esthetic, cultural, and recreational activities in all areas of the country."

As a representative of the City and the State of New York, which has 40% of the Nation's mass transit passengers, and which is a National center for culture and the arts, I know that these two areas contain some of the most labor-intensive and low-cost jobs that exist. They are also among the most personally and socially beneficial activities. As my seventh proposal, I urge that you include these areas for priority programs.

Given the strong emphasis on productive, economy-strengthening jobs, it is not appropriate to enshrine "National Defense" as one of the five principal categories. I hope it is no one's intention to reach full employment by increasing the amount military production or the size of our army. Therefore, my eighth proposal is that conversion of some of our military facilities to productive federal use be listed as priority area number four. The technology we have developed for air war can produce non-polluting rapid mass transit systems; our chemical and biological warfare research can be redirected towards the improvement of health facilities.

It is my firm conviction that H.R. 50 will be strengthened by acceptance of my eight proposals. I would like to emphasize that, in spite of my criticisms of certain sections, I am very encouraged by the attention this measure is receiving.

President Truman appreciated the visionary importance of full employment and he understood the dangers as well. In his last economic report, in January 1953, he wrote:

"We cannot assume that henceforth what needs to be done to promote the maintenance of full employment will be done. None of us—regardless of party—should let the idea of full employment degenerate into a slogan bandied for narrow political advantage. Like freedom, it needs to be guarded zealously and translated into action on a continuing basis. Moreover, if we fail in this, our very freedom may be placed in jeopardy."

I strongly hope that this bill will be enacted, and that our nation will be revitalized by the challenge. Let us shape the future by shaking off the pessimism and resignation of recent years and by building a National campaign in support of full-employment.

Mr. DANIELS. I ask unanimous consent that the Honorable Shirley Chisholm's prepared statement be allowed. She had intended to be here today, but inasmuch as she is not, I would like the record to show that her statement will be incorporated.

That concludes the hearing on H.R. 50 and the hearing is adjourned.

[Whereupon, the hearing was adjourned at 12:25 p.m.]

APPENDIX

PREPARED STATEMENT OF THE NATIONAL ORGANIZATION FOR WOMEN

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Introduction
Summary Recommendations Related to Women
Comments on Specific Sections of the Act of concern to Women
Women as Workers, an Overview
The Disparate Effects of Unemployment
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INTRODUCTION

The National Organization for Women is the largest and oldest women's rights organization of the new feminist wave. NOW has over 60,000 members, both female and male and 700 chapters in all 50 states.

We have realized the necessity for national full employment, and have been committed to that concept, for many years. We formalized our commitment at National Conference in 1971, resolving to work for "passage of legislation to provide for a full employment program for the United States, in which private industry and the public sector expand opportunities for work for all, so that each person can have a realistic chance for meaningful employment at a decent rate of pay."

A national Full Employment Act is necessary in order to move the nation toward the priorities of meeting human need through work opportunity. As a nation, we are losing millions of dollars in productive labor, services and taxes through endemic unemployment. Lack of work has so discouraged women, minorities, youths, and older citizens that many feel useless. Lack of work is also a costly contributor to the rising incidence of crime, alcoholism, drug addiction, depression and mental illness.

Unemployment severely affects women. The number of unemployed women has increased greatly since the 1950's and women account for an increasing proportion of all unemployed persons (See Figure 1). The rate of unemployment for women has been greater than that for men since the late 1940's (See Figure 2).

The figures illustrate the marked increase in the size of the female labor force coupled with a worsening in the unemployment rate of women as compared with that of men. In 1947, women accounted for 28 percent of the civilian labor force and 27 percent of the unemployed; in 1973; they accounted for 39 percent of the civilian labor force and 48 percent of the unemployed.[1] Nearly a quarter of a million unemployed women, in March, 1974, were family heads. Their rate of unemployment was 6.4 percent compared with 2.7 percent for men family heads in wife-husband families and 4.5 per cent for men heads in other families.[2]

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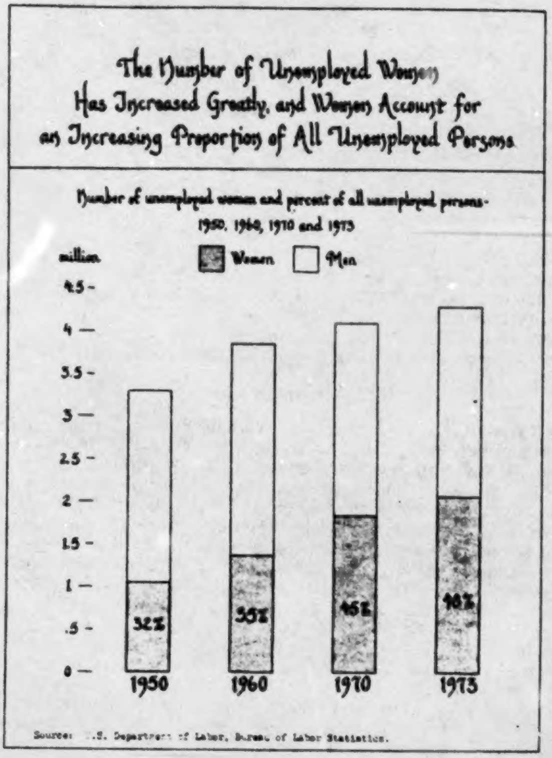
[1] U.S. Department of Labor, Women's Bureau, 1975 Handbook on Women Workers, 1975. Bulletin 297. pp. 64–65.

[2] Ibid. p. 70.



The Number of Unemployed Women Has Increased Greatly, and Women Account for an Increasing Proportion of All Unemployed Persons

Number of unemployed women and percent of all unemployed persons-1950, 1960, 1970 and 1973

Source: U.S. Department of Labor, Bureau of Labor Statistics.

FIGURE 1

Ref. 1975 Handbook on Women Workers; U. S. Department of Labor, Employment Standards Administration, Womens Bureau, Bulletin 297.

TABLE 27.—UNEMPLOYMENT RATES OF WOMEN AND MEN, 1947-74

[Persons 16 years of age and over]

Year	Annual averages	
	Women	Men
1974 (April, seasonally adjusted)	5.9	4.5
1973 [1]	6.0	4.1
1972 [1]	6.6	4.9
1971	6.9	5.3
1970	5.9	4.4
1969	4.7	2.8
1968	4.8	2.9
1967	5.2	3.1
1966	4.8	3.2
1965	5.5	4.0
1964	6.2	4.6
1963	6.5	5.2
1962 [1]	6.2	5.2
1961	7.2	6.4
1960 [1]	5.9	5.4
1959	5.9	5.3
1958	6.8	6.8
1957	4.7	4.1
1956	4.8	3.8
1955	4.9	4.2
1954	6.0	5.3
1953 [1]	3.3	2.8
1952	3.6	2.8
1951	4.4	2.8
1950	5.7	5.1
1949	6.0	5.9
1948	4.1	3.6
1947	3.7	4.0

[1] Not strictly comparable with prior years due to the introduction of population adjustments in these years.

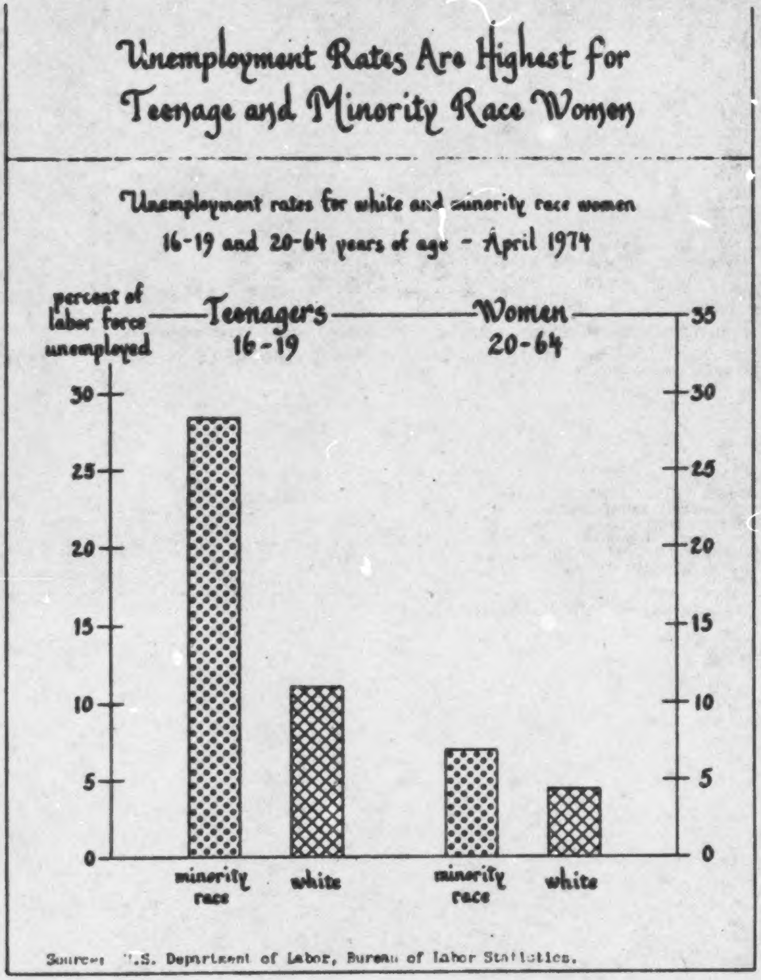
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics: Employment and Earnings, May 1974; and Manpower Report of the President, April 1974.

	Annual average 1947	Annual average 1973
Women in civilian labor force (in thousands)	16,664	34,510
Percent of total labor force	28	39
Women unemployed (in thousands)	619	2,064
Percent of total unemployed	27	48
Unemployment rate of women	3.7	6.0
Unemployment rate of men	4.0	4.1

Source: Manpower Report of the President, April 1974.

Unemployment rates for women are highest for teenagers and minority women (See Figure 3). The average unemployment rate for minority race women in 1973 was twice as high as the rate for white women (See Figure 4).

NOW strongly supports and endorses the goal of national full employment and a federal Full Employment Act is the primary way to accomplish that goal. We believe that in order to correct the unemployment problem as it affects all worker groups, women, minorities, youths, older citizens and men, the nation must establish specific goals and coordinate national policy and planning to achieve them. As a nation, we must stop scrambling to meet problems on a crisis-response basis. Inherent in the national effort to achieve full employment must be a commitment to equal opportunity. We cannot have full employment for one worker group and "just a little bit" of full employment



Unemployment Rates Are Highest for Teenage and Minority Race Women

Unemployment rates for white and minority race women 16-19 and 20-64 years of age - April 1974

Source: U.S. Department of Labor, Bureau of Labor Statistics.

FIGURE 3

TABLE 31.—UNEMPLOYMENT RATES OF WOMEN, BY AGE AND RACE, SELECTED YEARS, 1960 TO 1973

[Women 16 years of age and over]

Age	1973		1970		1960	
	White	Minority races	White	Minority races	White	Minority races
Total	5.3	10.5	5.4	9.3	5.3	9.4
16 and 17 years	15.7	36.5	15.3	36.9	14.5	25.7
18 and 19 years	10.9	33.3	11.9	32.9	11.5	24.5
20 to 24 years	7.0	17.6	6.9	15.0	7.2	15.3
25 to 34 years	5.1	9.7	5.3	7.9	5.7	9.1
35 to 44 years	3.7	5.3	4.3	4.8	4.3	8.6
45 to 54 years	3.1	3.7	3.4	4.0	4.0	5.7
55 to 64 years	2.8	3.2	2.6	3.2	3.3	4.3
65 years and over	2.8	3.9	3.3	1.9	2.8	4.1

Source: Manpower Report of the President, April 1974.

for other worker groups. Inherent in the policy of a Full Employment Act must be the commitment to a job guarantee. Everyone who wants a job must be guaranteed work. The nation must not implement an inadequate program which through job scarcity or by the establishment of false "worthiness" priorities, forces disadvantaged worker groups to compete one against the other for work. Inherent in the implementation of a Full Employment Program must be choice. There can be no requirement forcing a person to work, nor punitive measures taken against persons who choose not to accept work offered them.

NOW is extremely concerned about the costs to our society and to our individual citizens caused by continuing high levels of unemployment. A country which cannot provide work for the people who need and want it lacks the ability to provide the basic requirement for the pursuit of life, liberty and happiness.

NOW calls on this Committee, on the Congress, the Chief Executive and the American people to recognize that as a nation, we must find a way to provide full employment without discrimination. At the same time we must also be striving to achieve the goals of adequate housing, childcare and other essential human services which are necessary in order to work and in order to reduce social disruption and a growing national welfare bill.

SUMMARY OF RECOMMENDATIONS ABOUT THE ACT RELATED TO WOMEN AND MINORITIES

NOW members contributed ideas and support to the Equal Opportunity and Full Employment Act of 1976, introduced in August, 1974. NOW was not consulted on the revised version recently re-introduced. However, we anticipated landmark legislation which we could immediately endorse.

NOW is anguished that the Amendment eliminates important provisions from the previous Act and introduces some new provisions which will be damaging to the employment opportunities for women and minorities.

The following section summarizes our major concerns and recommendations. The section immediately following presents a detailed commentary and suggestions on specific sections of the Act as it relates to women and minorities.

1. The original Act announced to the nation through its title, "Equal Opportunity and Full Employment Act of 1976" and through many provisions since deleted, that Congress was not only providing for full employment, but was assuring equity as well. The current Amendment shifts "equal opportunity" out of the title and almost out of the Act, in favor of balanced growth. We recommend the re-inclusion of "Equal Opportunity" in the title along with "Balanced Growth."

2. While full employment for women and minorities would solve many of the immediate economic problems associated with life sustenance, the Act will not automatically solve problems caused by discrimination. There must be a spe-

cific commitment to developing new supplementary programs in training and counseling aimed at relieving discrimination and the channeling of workers into stereotyped jobs.

3. The term "labor force groups" must be expanded wherever it occurs to specifically include assistance for those other groups which suffer most from unemployment: i.e., women, minorities, and older Americans, as well as youths.

4. The rate of unemployment (3 percent) should be an interim goal and must be specifically defined as a goal for each worker group within the labor force. Without such clarification and emphasis, the Act will remain inherently discriminatory.

5. In addition to the special consideration given to the employment problems of youth, special consideration in the Act should also be extended to include the employment problems of women, minorities and older workers.

6. The eligibility criteria defined in the Act must be eliminated for its disparate effects on all women, particularly married women.

7. The Act must clearly prohibit forcing people off income maintenance into work which is not feasible or desireable to them.

8. In order to make the non-discrimination section of the Act effective, it is necessary to provide a private right of action with no required exhaustion of administrative remedies, as well as directing the Secretary of Labor to establish mechanisms for the receipt, investigation and resolution of complaints.

9. The Act must re-establish the concept of a "job guarantee" for any person who wants to work.

10. The inclusion of national defense as a high priority areas in the economic program is counter-productive to meeting the employment needs of women, minorities and older workers. We call for the conversion of excessive military spending into peacetime social service programs.

COMMENTS ON SPECIFIC SECTIONS OF THE ACT OF CONCERN TO WOMEN

In contrast to previous drafts of H.R. 50, the current draft appears to be designed to solve the unemployment problems of that segment of the workforce which has traditionally been most favored. It does little to address the problems of those groups in the workforce who have been most deprived of the benefits of full and equal employment in the past. We should now like to offer comments on specific sections of the ACT which are of particular concern to women.

Section 2(b)(4)

Although NOW believes that the achievement of equal employment opportunity would be easier under conditions of true full employment, it is important to note that full employment will not necessarily solve the problem of the differential between white males and those groups traditonally suffering discrmination in the workplace. Discrimination is a factor which is separate from cyclical economic behavior. It is erroneous to assume that if there were no recessions there would be no discrimination. Where discrimination exists and requires structural change, the bill makes no provision for counter-discriminatory programs. For example, the bill appears to assume that there would be no market imperfections if the economy were moving. However, the dual markets for so-called "male" and "female" jobs, which have resulted in artificially depressed wage rates for most women workers, would simply be perpetuated if full employment for women were achieved through continued placement in traditionally female jobs. Under these conditions, it is reasonable to assume that the discriminatory wage rates would also be perpetuated. Nothing in the bill speaks to problems of this nature. NOW believes that such problems must be specifically addressed in order for this bill to make a meaningful contribution to the elimination of discrimination.

Section 2(c) 2A

There are some areas where full employment and equal employment clearly overlap. For example, an economic recession resulting in layoffs conducted on a "last hired, first-fired" basis can cause a loss of equal employment gains where women and minorities have been integrated recently into jobs previously held solely by white men. Thus, we are pleased that this section recognized the need for programs specifically concerned with the problem of high unemployment during recessions. We believe, however, that such programs should be "specifically designed to eliminate" rather than "reduce" high unemployment. Similarly, we are pleased that the bill calls for programs to reduce structural unemployment "among particular labor force groups," but urge that the ultimate goal of such programs be the elimination, rather than the reduction, of structural unemployment.

NOW believes that this section must be greatly strengthened, to avoid continuing discrimination, by specifically mentioning women, minorities, and older people as being among those labor force groups which Congress intends to assist by this legislation. This is particularly important since an entire section of the bill is dedicated to addressing the unemployment problems of young workers, but the ACT makes no specific mention of the unemployment problems of women, minority, or older workers. NOW is also concerned that the subject of underemployment is not covered by the ACT since a disproportionate number of women are underemployed.

Section 102 "Sec. 2(b)"

NOW applauds the establishment of the right of all adult Americans able and willing to work to "opportunities for useful paid employment at fair rates of compensation. We are disturbed however, at the addition of the expression "seeking work" to this version of the bill. With this addition, the ACT obviously will fail to address the problems of the discouraged worker. Indeed, it would appear that in this version of the bill discouraged workers are not counted as part of the labor force. A large proportion of discouraged workers are women and members of minority groups, because they have suffered serious discrimination in past efforts to find employment. Therefore, NOW believes that it is essential that such workers be counted as part of the labor force if the ACT is to achieve any true condition of full employment in this society. For this reason, we suggest the deletion of the expression "seeking work" wherever it occurs in the bill.

Section 104 "Sec. 3A(d)

Although NOW does not accept the idea of a minimum "acceptable" level of unemployment, we realize that there will always be some minimal level of unemployment because of job search and labor mobility considerations However, NOW is gravely concerned about the establishment of an overall 3 percent maximum "acceptable" unemployment level. Our concern on this point is two-fold:

(1) The 3 percent is given as an ultimate, rather than an interim, goal. The 3 percent level of unemployment is established as the "minimum level of frictional unemployment consistent with efficient job search and labor mobility." There is no emphasis on further reduction of unemployment once this goal is achieved. The full employment is reached when no one is involuntarily unemployed.

(2) The 3 percent level is doubly suspect because it nowhere takes into account the fact that the unemployment levels of white males drop below 3 percent in good times, while the unemployment levels of women and minorities remain significantly above 3 percent. The table below gives the relevant statistics for 1969, a year when the overall unemployment was 3.5%.

UNEMPLOYMENT RATES BY RACE AND SEX FOR 1969

	Unemployment rate	Ratio to white male rate
White male	2.8	1.00
White female	4.7	1.68
Black male	5.3	1.89
Black female	7.8	2.79

Source: Statistical Abstract, 1975.

Thus, in a year when unemployment was not a major concern, it is clear that the black female population was asked to sustain a level of unemployment which would be cause for national alarm if it were suffered by the white male population. Further, it should be noted again that the unemployment statistics given do not include discouraged workers or involuntary parttime workers, the majority of whom are women and minorities. Therefore, the above table presents a much more optimistic picture than realistically existed in that year of ostensibly low unemployment.

NOW believes that it is imperative that, at the very least, a clause should be added to this section which would specify that the interim goal should be an unemployment rate which must not exceed 3 percent for any group in the labor force, regardless of sex, race, color, religion, national origin, or age.

Section 104 "Sec. 3A (e)(2)"

NOW commends the recognition of the importance of providing quality child care for all at costs within their means. We would suggest replacing the expression "day care" to "child care", in recognition of the fact that many parents work at night and thus require child care during hours which are outside the schedule of the usual day care center.

Sections 202(c)(4) and 204 (a)(1)

We want to emphasize that women and minorities should be specifically mentioned in this section as affected "groups within the labor force." Women and, minority workers are almost invariably the most severely affected members of any labor force group in terms of unemployment. In addition, extensive experience has shown that government officials tend to ignore the problems of women and minorities unless they are specifically directed to concern themselves with these problems.

Section 205

NOW is acutely aware of the severe unemployment crisis among young people, particularly among minority youths. Young minority women suffer the highest rate of unemployment of any group within this society. Therefore, we must stress the importance of specifically acknowledging the extreme severity of the unemployment problems of young female and minority workers.

Further, we question why the ACT nowhere includes mention of the special employability problems of displaced homemakers. These women are entering the workforce in middle age and require special help. They often have no marketable skills, very limited personal resources, and no place to turn. They also face a double burden of discrimination on the basis of sex and age. NOW believes that the ACT would be strengthened by direct mention of the problems of the displaced homemaker.

Section 206 (a)

By defining those people who are to be assisted under this section as "adult Americans able, willing, and seeking to work but who, despite a serious effort to obtain employment, are unable to do so," the bill once again stresses that it does not address the problems of people who are *not* making a serious effort to obtain employment, because past experience has shown them that such effort is futile.

Section 206 (c)(1)

NOW commends the inclusion of this clause. Properly administered, it should provide people, such as the aforementioned displaced homemakers, with some of the aid necessary in order to become useful and productive members of the work force. It is imperative, however, that counseling and training under this provision include encouraging women to opportunities in nontraditional jobs.

Section 206 (e)(1)

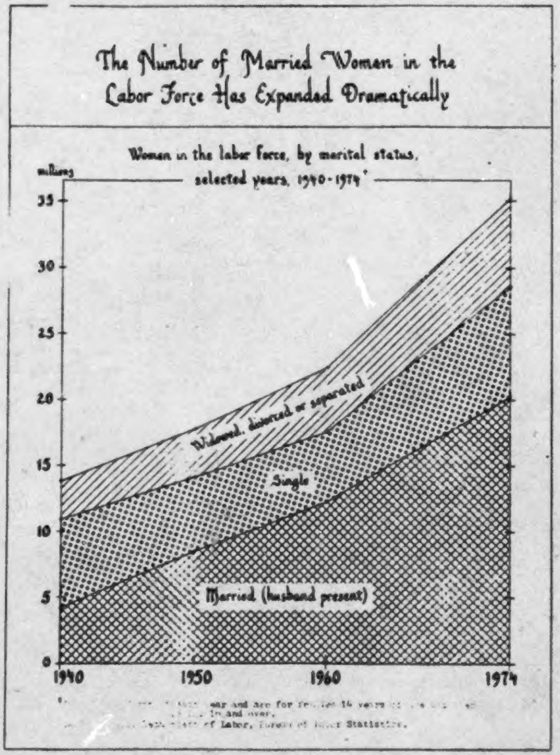
Any determination of a job seeker's ability to perform certain kinds of work must be based on an individualized evaluation of that persons' capabilities, and not on stereotypical ideas as to what jobs are appropriate on the basis of sex and race. Past manpower (sic) programs have been plagued with severe sex discrimination in training and placement. It is essential that a strong anti-discrimination provision be included in this section.

Section 206 (e)(3)

This section would clearly have a discriminatory effect on most women, and thus is unacceptable to NOW. Women, particularly married women, have often suffered severe employment discrimination in the past because of consideration of just factors as "the number of employed persons in a household, number of people economically dependent upon any such person, . . . household income" and similar barriers to equal employment opportunity. During the Depression women school teachers were dismissed from their jobs if they married. Indeed, married women were prohibited from teaching school in various districts in

Massachusetts until 1948. After World War II, women who had been performing well in traditionally male jobs were fired to open opportunities for returning veterans. These restrictions caused severe strain on many families, as women sought to keep the fact of their marriages secret from their employers in order to continue to earn the money their families needed or exercise the skills for which they had trained.

Implementation of this section will reinforce the myth that married women do not need to work. In fact, by 1974 the number of married women in the labor-force was five times as large as in 1940 whereas the population of married women was only about one and two third times as large.[3] (See figure 5). Statistics also show that by 1972 in more than half of wife-husband families the wife had earnings [4] (See Figure 6).


The Number of Married Women in the Labor Force Has Expanded Dramatically

¹ [illegible] year and are for females 14 years [illegible] 16 and over.
[illegible] Department of Labor, Bureau of Labor Statistics.

FIGURE 5

Ref. 1975 Handbook on Women Workers; U. S. Department of Labor, Employment Standards Administration, Womens Bureau, Bulletin 297.

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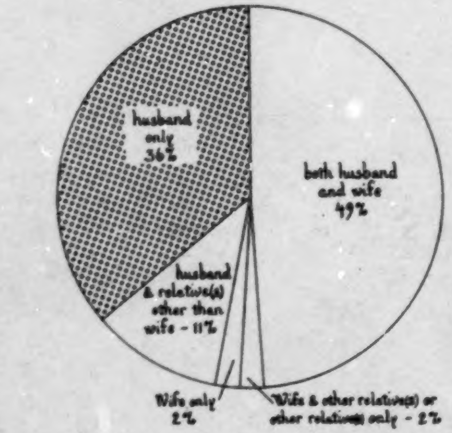
[3] Ibid p. 16.
[4] Ibid p. 138.

The Husband Was the Only Earner in
Less Than 3 out of 8 Husband-Wife Families

Distribution of husband-wife families¹ by earners in family in 1972



¹ Families as of March 1973; families with no earners are not included.

Source: U.S. Department of Commerce, Bureau of the Census.

FIGURE 6

Ref. 1975 Handbook on Women Workers; U. S. Department of Labor, Employment Standards Administration, Womens Bureau, Bulletin 297.

This section also assumes, incorrectly, that married women are well taken care of throughout their lives. NOW's extensive work with displaced homemakers has made us painfully aware that this is not the case. Many women who have accepted society's assumption that they would always be provided for by their husbands are widowed or deserted in middle age. They are left floundering when they must face, often for the first time, the exigencies of a job market which is ill prepared to absorb their talents. Excluding these women from the possibility of obtaining employment under the Act during their married years simply increases their vulnerability to severe unemployment problems later. In a bill which emphasizes long-range planning, this approach is surprisingly short-sighted.

NOW believes strongly that women can no longer be treated as the disposabies of the labor force or the chattels of men. We must have equal opportunities for full employment. If the Act is to set any short range priorities for placement, they must be carefully constructed so that they cannot impact adversely on any group identifiable by sex, race, or age. The priorities set under this section obviously do not meet this criterion.

Section 206 (c)(4)

This section also calls into question whether or not the Act is intended to achieve full employment, or only full employment for some groups in the labor force. The setting of eligibility criteria such as household income to limit access to the program which ultimately provides employment for those people not otherwise placed under the Act will obviously exclude a disproportionate number of married women from equal access to employment opportunities. This provision can clearly be expected to have a discriminatory impact on women and must be deleted. Again, we cannot stress too strongly that any short range criteria adopted must not have an adverse impact on groups identifiable by sex, race, or age.

Since the Secretary of Labor is assigned the responsibility for carrying out the provisions of Section 206 of the Act, it would be appropriate to examine the past record of the Department of Labor in similiar areas. A complete description of civil rights enforcement problems of Employment Service, Manpower Training, and work incentive programs can be found in the report of the U.S. Commission on Civil Rights, *The Federal Civil Rights Enforcement Effort—1974. Volume VI. To Extend Federal Financial Assistance.* A brief passage taken from the report (page 409) should be sufficient to demonstrate the Department of Labor's discriminatory treatment of women under these programs in the past:

> In June 1974 this Commission held hearings in Chicago on the effect of Manpower Administration programs on women. Those hearings revealed that minority women trainees were not counseled to enter nontraditional occupations. In fact, program counselors would often suggest only female-dominated occupations as options for skill training; for example, counselors would refer minority female trainees to domestic work. Counselors in the programs testified to the lack of any guidelines or enforcement mechanisms for ensuring compliance with anti-sex discrimination law. The hearings also revealed that MA programs gave priority in job placement to unemployed male household heads over unemployed female household heads. Even when women were placed, they were given the lowest-paid work with the least chance of advancement. *Hearings Before the U.S. Commission on Civil Rights in Chicago, Illinois, June 17–19, 1974* (unpublished transcript)

Specific safeguards against the recurrence of such problems must be written into the Act to prevent it from becoming a mockery for women seeking a fair and equitable position in the labor force.

Section 207

NOW is concerned that this section might be interpreted in such a way as to tend to force people, particularly mothers, participating in income maintenance programs to work outside the home regardless of their individual determination of the wisdom or desirability of doing so. If adequate job opportunities were provided, discriminatory barriers to employment were removed, and sufficient quality child care and other necessary facilities and programs were available, it is likely that many people who have been participating in income maintenance programs would desire and be able to return to work. NOW urges that this section be deleted. At the least, it should be clarified to preclude any misinterpretation of its intent.

Section 401

Essential to any major piece of employment legislation is a strong and effective anti-discrimination provision. NOW is distressed to note that the non-discrimination section of H.R. 50 is based on the enforcement structure for Title VI. Unfortunately, this enforcement structure has proved to be unworkable. There are no limits placed on the length of time the Secretary of Labor may take to determine that discrimination has taken place or to notify the recipient of a finding of noncompliance with the anti-discrimination provisions of the ACT. Merely establishing a sixty day time limit on voluntary compliance by the recipient will not resolve the problems inherent in the system when the recipient fails to secure compliance because the Secretary of Labor is authorized, rather than mandated, to take the necessary enforcement action. Under Title VI this "authorization" has all too often been interpreted to mean that it is not necessary to take any action. (See the Civil Rights Commission report previously cited for a complete description of the enforcement problems under Title VI.) The possible modes of action specified by the ACT are inadequate.

(1) Past experience dictates that referring the matter to the Attorney General with a recommendation that a civil action be instituted is unlikely to result in any action taken by the Department of Justice. (2) As mentioned previously, exercising the powers provided by Title VI is unworkable, and the administrative process is long and drawn out. (3) The section which permits the Secretary of Labor to take any other action provided by law could simply result in having the matter referred to another agency for disposal. For example, HEW refers complaints to the EEOC which defers them to state agencies. This provision simply permits "passing the buck", and impedes the timely resolution of complaints.

In order to make the nondiscrimination section of the Act effective, it is necessary to provide a private right of action with no required exhaustion of administrative remedies. In addition, the Secretary of Labor should be directed to set up a mechanism to receive and investigate discrimination complaints, issue determinations of cause, and institute fund termination procedures.

WOMEN AS WORKERS: AN OVERVIEW

NOW has made the previous critical and specific comments based on 10 years experience often frustrating, trying to overcome sex discrimination in employment against women.

The organization has worked for legislation outlawing discrimination and pushed for stricter agency enforcement on the non-discrimination laws. When those remedies were inadequate NOW moved for redress in the courts. This experience has left NOW wiser about the many ways in which Special interests can circumvent the national goal of equal opportunity.

Frequently we hear from those in positions of power in both the public and private sector that we should emphasize the positive; point to the positive "changing roles" of women in the labor force; and celebrate the "token" women who have been allowed to be a part of heretofore male dominated institutions and occupations. We disagree. We feel it is most crucial to expose and publicize the seriously deteriorating status of women in the economy, particularly in the context of the current national debate over full employment.

Historically, as women have entered the work force in ever increasing numbers, their economic stability has grown more precarious.

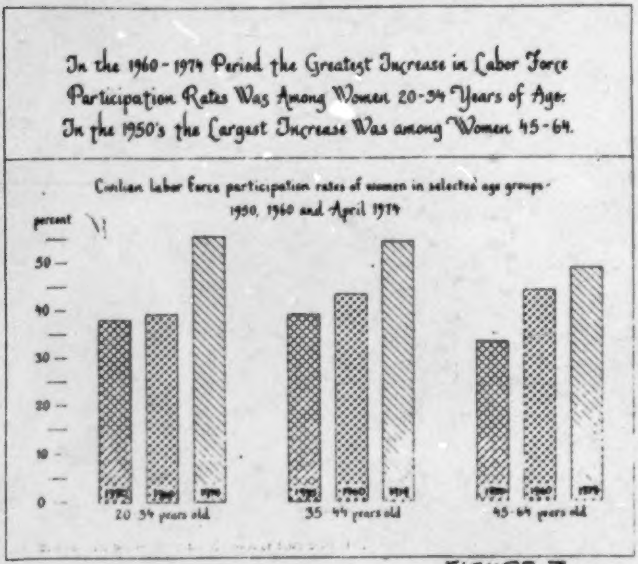
In the 1960–1974 period the greatest increase in the labor force participation rates was among females (See Figure 7). A comparison of wage or salary income of full-time year-round female workers in selected occupational groups with that of men (See Figure 8) showed that women's relative income positions deteriorated in most occupational groups during the period of growth between 1962–73. The overall earnings gap between females and men widened substantially during that time (See Figure 9).

Between January 1974 and January 1975 the labor force grew by 1.5 million. Adult women account for 1.1 million of that increase. Projections from the U.S. Department of Labor also disclose the number of female workers and their proportion of the labor force will continue to grow (see Figure 10).

It is also logical to assume that the gap in earnings will continue to grow without a major governmental effort to establish equity.

NOW continually points out the reason for this growth of women participating in the labor force is due to women's need to survive to provide for their families or personal satisfaction; and that women work out of economic need just as men do (See Figure 11). Nevertheless, we feel it is imperative to repeat, again, the statistics and facts we should all know by now, since our experience indicates that the message cannot be repeated often enough.

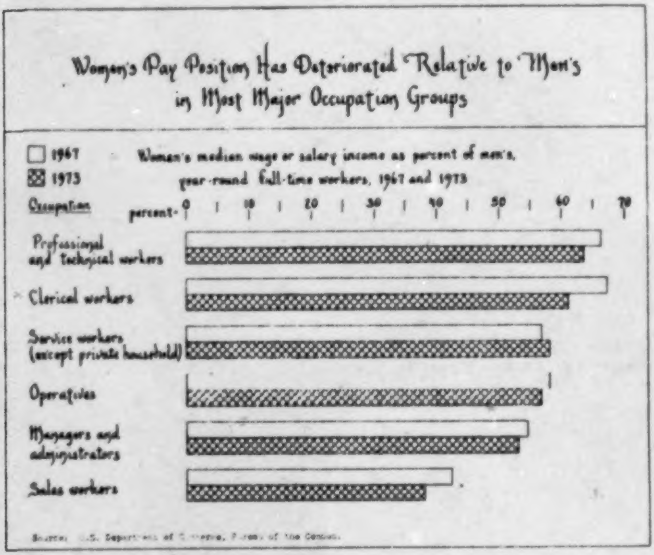
According to a recent study conducted by economists Heather Ross and Isabel Sawhill of the Urban Institute, female headed families with children now constitute 15% of all families, up from 6% in 1960. During this same period of time, the proportion of female-headed families in poverty has increased from 18% of all poor families in 1960 to 41% in 1974. Ross and Sawhill also show that in 1974, 32 percent of all poor families were husband-wife and children families. In 1973, in the age group of 25–44 years of age, the ages both of highest rate of participation in the labor force, as well as of childbearing and rearing, the mean income of female-headed families was one half that of male-headed single parent families, and barely one third that of husband-wife families.



In the 1960-1974 Period the Greatest Increase in Labor Force Participation Rates Was Among Women 20-34 Years of Age. In the 1950's the Largest Increase Was among Women 45-64.

Civilian labor force participation rates of women in selected age groups - 1950, 1960 and April 1974

FIGURE 7



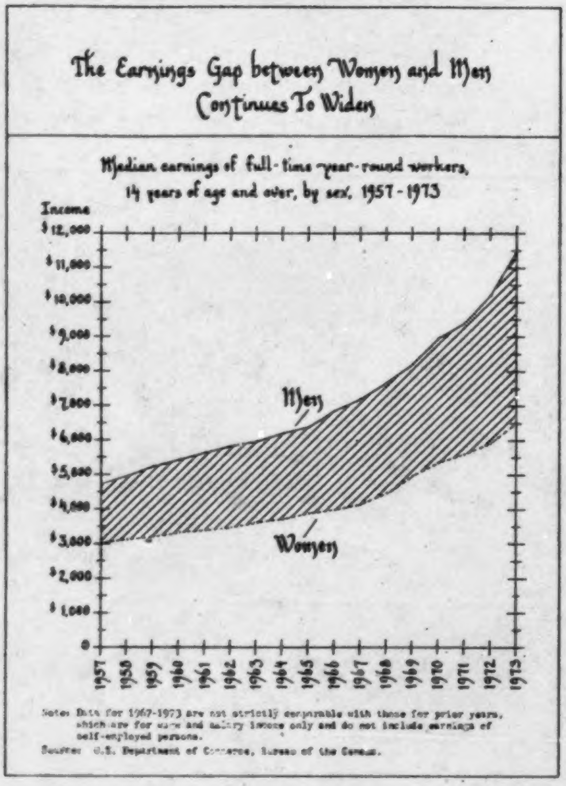
Women's Pay Position Has Deteriorated Relative to Men's in Most Major Occupation Groups

Women's median wage or salary income as percent of men's, year-round full-time workers, 1967 and 1973

Source: U.S. Department of Commerce, Bureau of the Census.

FIGURE 8

ref. 1975 Handbook on Women Workers; U. S. Department of Labor, Employment Standards Administration, Womens Bureau, Bulletin 297.



The Earnings Gap between Women and Men Continues To Widen

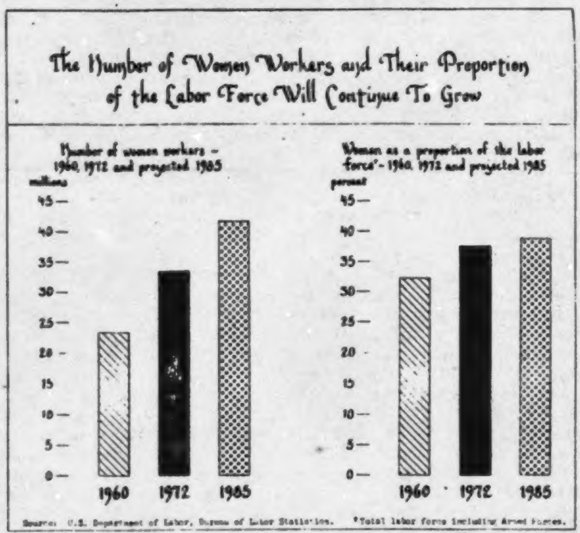
Median earnings of full-time year-round workers, 14 years of age and over, by sex, 1957-1973

Note: Data for 1967-1973 are not strictly comparable with those for prior years, which are for wage and salary income only and do not include earnings of self-employed persons.

Source: U.S. Department of Commerce, Bureau of the Census.

FIGURE 9

Ref. 1975 Handbook on Women Workers; U. S. Department of Labor, Employment Standards Administration, Womens Bureau, Bulletin 297.

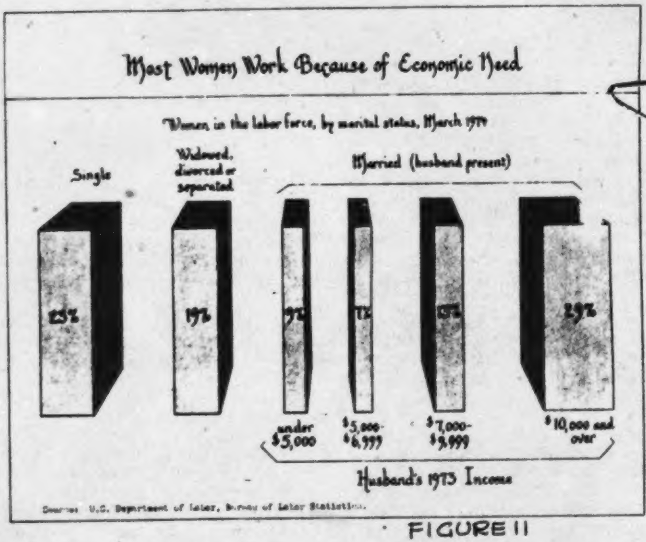


The Number of Women Workers and Their Proportion of the Labor Force Will Continue To Grow

Source: U.S. Department of Labor, Bureau of Labor Statistics.

*Total labor force including Armed Forces.

FIGURE 10



Most Women Work Because of Economic Need

Source: U.S. Department of Labor, Bureau of Labor Statistics.

FIGURE 11

Ref. 1975 Handbook on Women Workers; U. S. Department of Labor, Employment Standards Administration, Womens Bureau, Bulletin 297.

These bare-boned figures do not reveal the additional social and economic demands placed on the working woman, regardless of her marital status. The Women's Bureau has pointed out that ". . . the average working wife spends 5 hours a day (or 34 hours a week) on household tasks in addition to her work outside the home. The average husband spends 1.6 hours a day on home tasks. For the working woman who is also the head of a family, the work week approaches 80 hours—40 hours on the job and 40 at home. But she is also forced to manage this task (in every age group) with less than half the income of a male-headed family. These problems are compounded by the paltry availability of child care facilities: in 1974, 5 million working mothers had 6 million children under age 6, while the number of child care slots was only 920,000. The average working woman, whether or not she is the sole head of the family, is without adequate child care for her small children, overworked, and underpaid.

Employment research has repeatedly found occupational segregation to be the principal factor contributing to women's low wages. The Manpower Report of the President (1975) points out that classification of jobs by earnings reveals a marked similarity to classification of jobs by sex. Male dominated occupations assumes the lead in wages. Average earnings in private industry in March of 1974 were $4.06 an hour. In occupations with high proportions of women, the average wage was $3.00 an hour. Women are not only concentrated in lower-paying jobs, but are also found in large numbers in non-union business enterprises. A number of elements to keep the wages of women depressed: Lack of protection under collective bargaining agreements, the negative effect of so many women wanting work; who out of desperation for a job will settle for low-paid, dead-end jobs; and the repeated cycles of economic recession which, with frightening regularity, wipe out gains made by women between the low points of the cycle.

Affirmative action programs help to ameliorate the worst abuses in discrimination. But, within the framework of limited employment, recessions, and large numbers of women workers competing for traditionally "female" jobs, the gains will continue to be marginal. Equal opportunity laws must be bolstered by a constant enlargement of employment opportunities. We must develop a coherent, planned approach to achieving this, or the struggle for equal rights will result in small gains for women and minorities with continued frustration and deeper despair.

In the past year, "last hired, first fired" has become a red-flag phrase to many women and minority men. Under the seniority principle, last year, 600 women were laid off at the Ford Motor Company, and 400 at General Motors. This comprised nearly all the women who had been hired in recent years through affirmative action. Over 300,000 women, or 11.2 percent of all women workers, as compared with 7.7 percent of all men workers in the durable goods manufacturing sector lost their jobs last year.

Bona fide seniority systems must be upheld and preserved as the only job security working women and men have. But this does not mean that affirmative action gains achieved over five or six years should be wiped out in a matter of months.

"Trading off" between seniority and affirmative action is unacceptable since it creates destructive conflict over a shortage of jobs, pitting men against women, whites against blacks and other minorities, and placing the burden of recession on the people least able to bear it.

DISPARATE EFFECTS OF UNEMPLOYMENT

In 1975, the official unemployment rate soared higher than at any time since the Great Depression. The number of unemployed averaged 7.8 million, but during the year, many more already discouraged job seekers were affected. Millions of employed workers felt a growing sense of insecurity. For women, minorities and young people about to embark on or to resume careers, the economy looked like a lifeboat with no empty seats.

In 1976, the unemployment rate for white women is 7.5 percent, for black women it is 10 percent, for minority teenagers, the rate is 35 percent, while for white males, the rate is 5.1 percent. Women comprise 66 percent of the estimated 700,000 discouraged workers, and millions of part-time women workers who need and want full time jobs are unable to acquire them. Older people, those with physical and mental handicaps and many homemakers are told that they don't belong in the labor market at all. What these inequities mean is that a recession for some is a depression for others.

Past economic policies have ignored single, separated, widowed and divorced women and the four million children who live in families headed by working women. Moreover, those policies have not acknowledged the necessity of the working wife whose families would simply not be able to make ends meet without the additional incomes.

NOW believes that in order to achieve full employment *and* equal opportunities, special measures will be necessary for these disadvantaged groups. Subsidized training programs to upgrade skills will increase incentives for the employer and employees to maintain the work relationship. Improved career and vocational counseling are needed, particularly for teenagers. Programs to break down occupational barriers and widen women's labor market goals and opportunities will help to end discrimination and more equally distribute women among occupations. Special programs are needed to ensure that part-time work is an option for those who wish it, and not a necessity for certain classes of workers. Older women, especially the displaced homemakers, who are re-entering the work force or entering it for the first time, need special attention. Social services such as readily available, inexpensive (for the parents) and quality child care are the underpinnings to equal opportunities.

We need permanent expansion of the public sector to meet the above needs, as well as others such as environmental protection, mass transportation, dignified housing, medical services and care of the aging. History has proven that the private sector, dedicated to profitable endeavors, is not capable of meeting the employment and service needs of the American people without formidable cost to themselves or the public.

FURTHER COMMENTS AND RECOMMENDATIONS ABOUT THE ACT

The latest version of the bill has been strengthened by the addition of fiscal and monetary mechanisms to ensure balanced economic growth and to control inflation. While we regret that it does not call for price controls and tax reform, we are pleased with provisions for sounder planning and coordination and management of the economy by the executive and legislative branches. The counter-cyclical policies are also important new provisions. While they do not address elimination of the root causes of cyclical recession, they constructively address these symptoms.

The grant program for state and local governments and the special financial provisions for assistance to depressed regions and inner cities will provide welcome help to areas hardest hit, and create large numbers of public sector jobs.

An omission of grave concern is the lack of mandatory controls on the President and the Federal Reserve Bank. It is extremely important that the Federal Reserve and all executive agencies and commissions be mandated to adjust their goals to conform with our national priority of full employment. We have no assurance that the necessary structural changes will actually take place. The President could still insist that unacceptable levels of "minimum frictional unemployment" be used to fight inflation. Furthermore, whether or not the Federal Reserve and other agencies will be held accountable for their policies depends on the mood and perspective of the administration.

A case in point is the integration, improvement and expansion of youth employment programs. The most statistically graphic and grim unemployment problem is among teenagers, particularly in the minority communities, and we commend the authors of this bill for addressing this tragedy. As a word of caution, however, we believe that a piece-meal approach could prove ineffective. Conceivably, we could have a good youth employment program, and a good adult program which would be seriously undermined by adverse fiscal policies from the Federal Reserve. High interest rates placing rent, property and other necessities out of the reach of new wages would expand the numbers of the working poor.

The omission of the National Institute for Full Employment removes an important research provision. We believe that an effective full employment program will require ongoing research, some of which must address the needs and special employment problems of women, minorities, youth and older people. We recommend that this provision be reinstated to ensure long range success in problem solving.

We are also concerned that there are no provisions or policies in H.R. 50 for conversion of military spending to financing of peacetime social services. Each

1 billion dollars injected into rural or urban development creates approximately 20 percent more jobs than does the same 1 billion dollars when put into military spending. Military spending is expensive and inflationary. We are no longer impressed by the stockpiling and burial of new and better weapons. Instead, we are concerned with the serious lack of social services—child care, medical services, care for our aging and handicapped, education, transportation, etc. While some countries are able to spend inordinate amounts of their national income for military purposes while still maintaining full employment, free medical care, public child care and low cost housing, the U.S. is still caught in a "trade-off" situation. If we cannot solve the root problem, then we call for a transfer of priorities to social services with a permanent expansion of public service employment in these crucial areas.

NOW strongly recommends that provisions be included for citizen participation in the planning of job programs in local areas. Governors should be required to hold public hearings to ensure that people can communicate their ideas on needed human services. The importance of citizen participation has been recognized in many recent major pieces of federal legislation and surely is appropriate in this Act which affects millions of United States citizens.

We thank the authors of the Act, and the committee members for their leadership and commitment in the campaign for full employment in the United States. NOW looks forward to working closely with you in the continuing struggle to create a just, humanist society which is the goal of our feminist action. We sincerely urge your careful consideration of our comments and recommendations for inclusion during the Amendment process.

PUBLIC EMPLOYEE DEPARTMENT AFL–CIO,
Washington, D.C., April 23, 1976.

HON. DOMINICK V. DANIELS,
Chairman, Subcommittee on Manpower, Compensation and Health and Safety, Washington, D.C.

DEAR MR. CHAIRMAN: Attached herewith is a statement of the Public Employee Department, AFL–CIO with reference to H.R. 50. We hope this may be available for study by the Members of your Subcommittee and for inclusion in the record of your current hearings.

Many thanks.

Respectfully,

JOHN E. COSGROVE,
Director of Legislation.

Enclosure.

STATEMENT OF PUBLIC EMPLOYEE DEPARTMENT, AFL–CIO, ON H.R. 50, THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

The Public Employee Department, AFL–CIO represents 29 national unions which have affiliated with the Department on behalf of over a million-and-a-half public employees at every level of government.

We endorse unequivocally the statement of March 16, 1976 by our parent AFL–CIO and would particularly point up the statement of April 6, 1976 by President Albert Shanker of the American Federation of Teachers, which union is an affiliate of our Department.

As so many have told you, they were heartened by the passage of the Employment Act of 1946 and indeed it was a major step forward. It has not, however, fulfilled the expectations which many of us had entertained. What has been needed all along and what at last is now before you, with an outstanding opportunity for American progress, is H.R. 50, the Full Employment and Balanced Growth Act of 1976. It can bring the hopes for the old Employment Act to fruition.

H.R. 50 combines the national ideal of planning for job opportunity for everyone able to work, with practical, detailed action steps to be undertaken by the Government to realize this ideal.

The country has experienced great changes since the Employment Act of 1946 was enacted. Even more than then, we are a nation of employees, with four out of five in the workforce working on someone's payroll. Accordingly, to each individual, having a job is of paramount importance. It is of similar importance to the whole society, if we are to have the mass purchasing power which fuels the free enterprise system and if we are to produce as well as consume. If, on the contrary, we accept that there can be millions of unemployed—whether the alleged purpose is to dampen inflation or whatever—we condemn society to a partial effort, and to maintaining millions on unemployment compensation, food stamps, welfare, etc. Unhappily the latter choice appears acceptable to the Administration. It forecasts unemployment: 1976—7.9%; 1977—7.2%; 1978—6.5%; and only in 1979 and 1980 is the figure estimated to fall below 6%.

We stand with the former objective, that of the Hawkins-Humphrey bill—that we can and must reduce unemployment to 3%.

The testimony of the U.S. Department of Labor that this bill would "create expectations that cannot be met" in seeking to reduce unemployment to 3% in four years clearly indicates a trade off when the goal is compared with "price stability." We do not believe that tremendous inflationary pressures would be generated. On the contrary, we think that increased production of needed goods and services, many of them in the public sector, could help us reach full employment with manageable inflation. Up to this point, in the last seven years, we have experienced neither full employment, full productivity, nor controllable inflation.

The record of the performance of the American economy between 1965 and 1975 documents the dismal record of the current Administration and refutes the suggested causal nexus between achievement of full employment and price stability. For example, between 1965 and 1969 unemployment averaged 3.8% while inflation coincidentally also averaged 3.8%. During this period real economic growth advanced at a yearly rate of 4.6%. During the period 1970–74 the average unemployment level deteriorated to 5.3% with inflation over the year also averaging 5.3%. The economic collapse in 1975 found the official unemployment rate soaring to 8.5% while inflation over the year increased by 7%. The historical evidence of the past ten years rejects the naive hypothesis that a return to full employment (3% unemployed at the most) will kindle increasing inflation.

The current recession, the second and most severe of the Nixon-Ford era, with 8 and 9 percent unemployment, which is far higher if one includes the underemployed, the uncounted and the partially employed, has been the result of tragically mistaken governmental economic policy.

The cost to state and local governments of the current recession is enormous. The Economic Report of the President issued in January 1976 estimated that the lost tax revenues of state and local governments amounted to $27 billion compared to what they would have collected if there had been only 4 percent unemployment during calendar year 1975.

The Congressional Budget Office (CBO), in its report released in March 1976, estimated that for every 1 percent of unemployment, state and local governments lose between 4 and 6 billion dollars in tax revenues. Since unemployment averaged 8.5 percent during 1975 and a reasonable full employment goal would be 3 percent unemployment, the CBO estimates amount to a minimum of $22 billion and a maximum of $33 billion of lost tax revenues by state and local governments due solely to this recession during 1975 alone.

Further, the Administration's officially projected unemployment rates for the next two years, applying the CBO estimate for lost state and local tax revenues, means that at a minimum another $36 billion and a maximum of almost $55 billion of lost tax revenues will be incurred by state and local governments due solely to recession.

The numbers are staggering. Three years, 1975, 1976 and 1977 of the Administration's recession will and have meant lost state and local tax revenues of at least $58 billion and at most $88 billion.

The Administration's policy of high unemployment is a policy which reduces tax revenues at all levels of government—state, local and federal. Therefore, the Administration's policy is one which reduces the quality of public services throughout the country. It must be realized that the decrease in quantity and quality of public services and goods delivered to the American public over the past year is a direct consequence of the recession caused by the current Administration's economic policies.

At current wage levels, over 3 million additional public employees could be hired—as needed—by state and local governments, with the lost revenues and tax receipts that were not available to state and local governments solely because of the massive recession in this country.

Intensive difficulties of maintaining public service in the face of public employee cuts are evident from New York to San Diego. The untenable financial position of New York Cty, with the $112 billion budget and a deficit nearly $800,000 million, at a time when the last year has seen the city payroll reduced by over 30,000 workers with a projection for far more than that for next year, needs little elaboration. *Time* magazine, certainly no pro-labor publication, last fall surveyed 10 major cities with these findings, in part:

Los Angeles—About $40 million in capital expenditures—which affect jobs in private industry—have been postponed to avoid layoffs or cuts in public services this year. To balance the budget next year the city will either have to trim some services or again raise the property taxes, which went up nearly 10% last August.

Detroit—With unemployment around 23%, Detroit's revenues dipped by an estimated $16 million last winter. Approximately 1,500 city workers have been laid off, representing [illegible]% of the workforce. The Mayor is attempting to eliminate another 1,200 jobs through a hiring freeze.

Dallas—To prevent a deficit, the city council recently raised property taxes by 3.3% and trimmed 225 workers from the payrolls. An additional cut of $2 million has been announced for nonessential services, such as reducing city support for museums and bookmobiles.

Baltimore—Despite financial assistance from the state, Baltimore has imposed a hiring freeze, and eliminated 800 jobs through attrition. Facing a $50 million deficit next year, public services are expected to be further reduced.

San Diego—about 213 jobs have been cut through attrition with plans announced to cut that many more next year. Pay raises have been held to 5% and the city is considering imposing an income tax.

The Time survey cases cited here are from some of the great metropolitan areas—but medium and small cities are likewise seriously in trouble.

Subsequent to the Time survey, indeed in April 1976, Detroit's mayor announced the layoff of nearly 1,200 workers, the closing of 27 branch libraries, a health center, a museum and a fire station. It is estimated that a third of the city's employees will be laid off within the next few months unless the city receives assistance promptly.

One consequence is the need for permanent coverage of all state and local government employees under Unemployment Insurance laws.

The general economic policy of H.R. 50, requiring the President, the Congress, and the Federal Reserve System to develop actions step to achieve national goals with the priority for full employment and balanced economic growth, is precisely what this country needs. As is universally acknowledged, each percentage point of unemployment costs the federal treasury $16 billion. The loss to state and local governments from each 1 percent unemployment is approximately $4–6 billion. Both of these losses are too great, but state and local governments have far more difficulties in borrowing to replace lost revenues, as we have seen demonstrated so drastically in New York and elsewhere in recent months.

We wish the Committee God-speed in advancing passage of H.R. 50. It would be difficult to overstate the beneficial results which we can reasonably expect from this great, landmark legislation.

AMALGAMATED MEAT CUTTERS AND
BUTCHER WORKMEN OF NORTH AMERICA,
Chicago, Ill., April 23, 1976.

Mr. DANIEL H. KRIVIT,
Counsel,
Subcommittee on Manpower, Health and Safety,
Committee on Education and Labor,
U.S. House of Representatives,
Washington, D.C.

DEAR DANNY: Please make the enclosed letter regarding H.R. 50 a part of your hearing record on the legislation.

Thank you very much.

Sincerely yours,

ARNOLD MAYER,
Legislative Representative.

Enclosure.

AMALGAMATED MEAT CUTTERS AND
BUTCHER WORKMEN OF NORTH AMERICA,
Chicago, Ill., April 23, 1976.

Hon. DOMINICK V. DANIELS,
Chairman, Subcommittee on Manpower, Health and Safety, Committee on Education and Labor
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Our 500,000 member Union strongly supports H.R. 50, the Full Employment and Balanced Growth Act of 1976. The legislation would establish full employment as a basic policy of the United States of America and would provide a specific series of actions to achieve that goal. Its enactment is desperately needed.

Our nation's greatest problem today is continuing, high unemployment. From this waste of human beings and from this mass of human suffering stem many other national problems such as economic slack, welfare costs and increased crime. Every American, whether unemployed or employed, suffers personally, economically or socially.

The so-called "improvements in the economy" which are being currently heralded by the Ford Administration and the news media are of little comfort to either the 11 million Americans who are partially or totally jobless or the rest of our nation which suffers from the backlash of unemployment. The economic forecasts of the Administration push the continuation of massive joblessness into the 1980s.

Nor is high unemployment a recent phenomenon. Since the end of World War II, the nation has suffered recurrent recessions. Each of these downturns have been generally more severe than the preceding one. And in the "prosperity" which followed each recession, the nation generally had a higher unemployment rate than in the period following the previous recession.

Once, economists spoke of a 2.5 percent unemployment rate as being full employment. This was the nation's goal. That acceptable rate has steadily increased in the past 25 years until the Ford Administration is seeking a rate of nearly 6 percent and speaks glowingly of an economy in which the official unemployment statistics show more than 7 percent joblessness.

In actual fact, the official unemployment statistics sharply underrate current joblessness. Millions of workers who are so discouraged by unemployment prospects that they have dropped out of the labor market and additional millions who are forced to work part-time because of the absence of full-time jobs are not counted. Some 10 percent of the U.S. labor force is partially or totally unemployed today.

The Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO) considers H.R. 50 and its reforms to be the most important legislation to be considered by Congress in recent years. It is landmark legislation which is important for the welfare of all Americans who want and need work. The goal which it would achieve is vital to every aspect of American life.

Our Union strongly urges the Education and Labor Committee to report H.R. 50 speedily to the House of Representatives and for the House to approve it.

Sincerely yours,

PATRICK E. GORMAN,
International Secretary-Treasurer and Chief Executive Officer.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., April 26, 1976.

Hon. DOMINICK V. DANIELS,
Chairman, Subcommittee on Manpower, Compensation and Health and Safety, Committee on Education and Labor
House of Representatives, Washington, D.C.

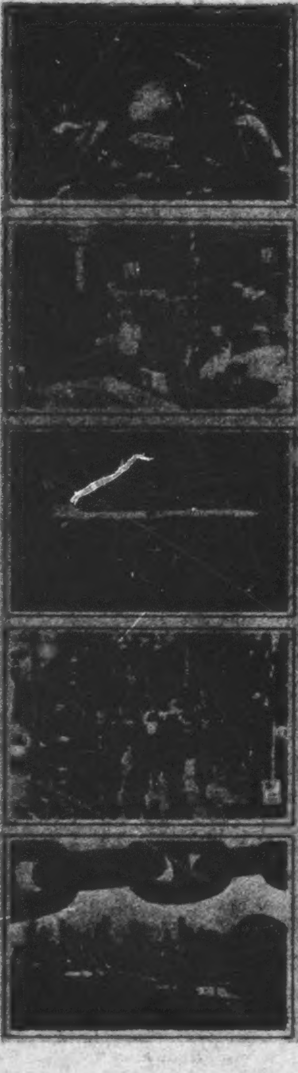
DEAR MR. CHAIRMAN: Attached is a statement expressing the views and recommendations of the Chamber of Commerce of the United States on H.R. 50, The Full Employment and Balanced Growth Act of 1976.

We will appreciate your consideration of these views and request that the statement be made a part of the hearing record.

Cordially,

HILTON DAVIS,
General Manager, Legislative Action.

Attachment.



Statement of the

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

As the nation's largest business federation, the Chamber's membership includes over [illegible] business firms, corporations and individuals—and more than [illegible] chambers of commerce and trade and professional associations, with an underlying membership in excess of 5,000,000.

STATEMENT
on
FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976 (H.R.50)
for submission to
MANPOWER, COMPENSATION, AND HEALTH AND SAFETY SUBCOMMITTEE
of the
HOUSE EDUCATION AND LABOR COMMITTEE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA
by
DR. PAUL A. REARDON*
and
THOMAS P. WALSH**
April 23, 1976

The National Chamber appreciates the opportunity to present its views on H.R.50, the "Full Employment and Balanced Growth Act of 1976," dated March 10, 1976. The major intent of this bill is to achieve, within 4 years of enactment, the goal of full employment for all adult Americans able, willing, and seeking work. Full employment is construed as consistent with an unemployment rate of not more than 3 percent.

Chamber Position

The National Chamber supports the intent of H.R.50. In human terms, it is distressing if one job-seeking man or woman is unable to find work.

Moreover, business prosperity and high employment are mutually dependent conditions. Unemployment and inflation depress business sales and profits, and postpone business expansion -- an essential measure in making jobs available for an ever-larger workforce.

However, while we support the aim of full employment, we recommend that this bill not be enacted.

We are convinced that it would abort the current recovery and could cause greater unemployment than we have recently experienced. The inflation-recession now burdening the economy occurs partly from government attempts to achieve the opposite through aggregate economic measures -- high employment without inflation. The measures set forth in this bill would ultimately have the same result -- more inflation followed by still more unemployment.

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*Economist, Chamber of Commerce of the United States

**Executive, Education and Manpower Development Committee
Chamber of Commerce of the United States

We believe H.R.50 creates expectations that cannot be met in any sense of practical reality. Though no responsible segment of American society opposes a public policy to minimize the risks of unemployment, the question before us is how to minimize the risks of unemployment without sacrificing other desirable social and economic objectives, such as the increase in our national standard of living, our abilities to compete with other nations in the world, and the inherent right of individuals to participate in the economic decisions affecting their lives.

In England, national planning has produced low economic growth, staggering inflation, and now high unemployment, as this statement notes later. Only in nations where strict economic and social discipline has replaced economic and personal liberty has government planning eliminated unemployment, and in these countries the cost in human and economic terms has been severe for the vast majority of their citizens.

H.R.50 presumes that through a variety of governmental actions, unemployment can be reduced to 3 percent without other undesirable consequences. This is not possible, and the American people must understand the many implications of pervasive government intervention in our economic system.

The Bill's Major Provisions

The President would transmit to the Congress an Economic Report not later than January 20 each year. This report would include annual numerical plans for employment, production, and purchasing power designed to achieve full employment.

In conjunction with the Economic Report, the President would also transmit to the Congress a Full Employment and Balanced Growth Plan. This plan would propose, in quantitative and qualitative terms, long-term national goals for full employment, production, purchasing power, and other priority purposes. It would include the number of jobs to be provided adult Americans to reduce unemployment to 3 percent.

Persons employed would do work "that would not otherwise be done." They would be paid the highest of either the minimum wage under the Fair Labor Standards Act, the state or local minimum wage, or the prevailing rates of pay for persons employed in similar public occupations. In the case of persons performing work "of the type" to which the Davis-Bacon Act applies, the prevailing wage would be determined by that Act.

To provide the necessary number of jobs to achieve the full employment plan, the bill would establish a Full Employment Office within the Department of Labor. This office would develop reservoirs of federally operated public employment projects and private nonprofit employment projects approved by the Secretary of Labor.

When the economy is subject to excessive strain, priority expenditures in the Full Employment and Balanced Growth Plan would be maintained. Less important expenditures might be reduced, or taxes raised to balance the federal budget or create a surplus under conditions of full production, employment, and purchasing power.

The Board of Governors of the Federal Reserve System would transmit to the President and the Congress an independent statement setting forth its intended policies for the year and the extent to which these policies support the Economic Report and the Full Employment and Balanced Growth Plan, and a full justification for any substantial variations. If the President determines these policies are inconsistent with the full employment objectives, he would make recommendations to the Federal Reserve Board and the Congress to insure "closer conformity to the purposes of this Act."

An Advisory Committee on Full Employment and Balanced Growth would be established, representative of labor, industry, agriculture, consumers, and the public at large, to furnish advice and assistance to the Council of Economic Advisers in the preparation and review of the Economic Report and Full Employment and Balanced Growth Plan.

PART I -- EMPLOYMENT ASPECTS

Cost of Government-Created Full Employment

To reduce the national unemployment rate to the proposed target of 3 percent, the federal government would have to rely primarily on a massive public service employment (PSE) program or public works program, or some combination of the two, with perhaps supplementary projects involving subsidies to employers in the private sector.

Based on current levels of unemployment and average cost of $8,000 for each PSE job, it would cost $34 billion to fund 4.3 million jobs to bring the rate of unemployment down to 3 percent. If growth in the economy continues as expected over the next 4 years and unemployment drops to nearly 5 percent, it would still be necessary to fund 2 million jobs at an average cost of probably $10,000 or total cost of $20 billion. The actual cost might be nearly half again this much since the bill mandates public jobs at the prevailing wage, and the median individual income today is $12,500 for men employed full-time.

To the extent taxes are raised to cover the additional expenditure, consumer purchasing power is diminished, which in turn affects private employment. And to the extent these jobs are financed through additional public debt, there is created a further stimulus to inflation, which also diminishes purchasing power. Therefore, regardless of the method of financing PSE jobs -- whether through raising taxes or incurring more debt -- the expenditure retards the growth of other employment.

In addition to the job loss from slowing the growth of the private economy, there is an additional job loss through the demonstrated tendency of state and local governments to substitute federal funds for their own payroll funds. Several studies put this displacement effect as high as 50 percent. This indicates that every 100 federally subsidized jobs may actually add only 50 jobs. At this rate, the cost of reducing the unemployment to 3 percent would be double the above estimates.

While H.R.50 would also provide job opportunities for youth, the bill introduced on March 10, 1976 is silent on an employment goal for youth.

If we assume that "adults" means persons aged 20 and above, as in tablulations prepared by the Bureau of Labor Statistics, then nearly $25 billion would be required to establish 3,100,000 jobs to reduce adult unemployment from the current rate of 6.4 percent to 3 percent, assuming the more conservative cost of $8,000 per job. If "adult" means persons who have reached the legal maturity age of 18, then the number of jobs and the expenditure required would be substantially increased. And, of course, if "adult" means youth aged 16 and over, as reported by the House Equal Opportunities Subcommittee, then a still greater expenditure is necessary.

Another important matter to consider is that the wage or salary is only part -- sometimes a small part -- of the total expenditure necessary to maintain a worker. A sizable investment in facilities, equipment, and supplies is also required, and the capital formation for this investment must be added to the total public expenditure in a government-created jobs program.

Advocates of government-created jobs contend the high cost of such a program is overstated because of failure to take into account the $20 billion now paid to laid-off workers drawing unemployment insurance (UI) benefits, and benefits paid to persons on welfare. It is argued these expenditures would be drastically reduced if more people were put to work on government-subsidized jobs.

Experience, however, suggests the savings would be modest. Preliminary data indicate that of PSE workers hired under Title VI of the Comprehensive Employment and Training Act (CETA), only 15 percent were formerly on AFDC or other public assistance rolls, and 12 percent were formerly drawing UI benefits. Since there is some duplication in these figures, probably only one PSE worker in five was receiving one or both benefits at the time he or she was hired. A calculation of savings, or net cost, must be scaled down accordingly unless the administration of UI, AFDC, and other public assistance programs is changed so that a person becomes ineligible for future benefits if he turns down a job. We see no such stipulation in the proposed legislation, though a purpose of Title II is to mandate improved integration of income maintenance programs and full employment policies.

Reduction in net cost resulting from the workers' federal income tax payments would amount to less than 8 percent of the total cost, based on a family of four using the standard deduction.

Employment and Capital Formation

While we must always be concerned about improving job opportunities for the unemployed, it is useful to keep in mind that 56 percent of working-age persons hold jobs today -- a level higher than ever, even surpassing the economic-growth years of the early 1960s, when unemployment often dipped below 5 percent. This is clear evidence of improving labor market conditions.

It is important to note that between July 1975 and January 1976, the 7-month period when the Senate passed and the President vetoed another job-creation bill, the "Public Works Employment Act of 1975" (H.R.5247), total employment increased by 1,227,000. This is more than twice the most optimistic estimate of the number of jobs this bill would create, and without incurring the $6 billion additional tax or debt burden it authorized.

Although total employment has reached its previous-record level of 86.3 million, unemployment remains unacceptably high because the number of persons seeking work has been increasing even faster than the number landing jobs. Few people realize that for every 100 households, there are 150 people working. This is for households with heads under 65, and, of course, some of these jobs are low-income or part-time.

The jobs-per-household figure nevertheless has relevance to this legislative proposal. Two or more workers per household is a form of unemployment self-insurance. If one employee in the household is laid off, some household income maintenance is provided by those who continue to work, plus the tax-free unemployment payments usually received by the person laid off.

The growth of the workforce will continue apace. In the next 5 years, another 1.6 to 2 million jobs must be created every year -- in addition to the number necessary to reduce the current high level of unemployment. Since it now takes an average investment of $40,000 to sustain a worker in a job, conditions must be created under which savings will increase faster for more investment in many critical areas.

The 1976 Annual Report of the Council of Economic Advisers summarizes a Department of Commerce study of the nation's needs for capital in this decade. It is estimated that an additional $190 billion in business fixed investment would be needed in the 1970's if the nation is to provide capital for greater energy independence and pollution control. The study concluded that the ratio of business fixed investment to GNP may have to average 12 percent or more from 1975 to 1980 compared to 10.4 percent in the 1971-74 period. And massive investments are also needed in the primary processing industries where shortages appeared in 1973, in health and safety, and in transportation.

This means we must create an economic climate that encourages both savings and investment. Large federal deficits, on the other hand, retard private investment by competing for funds. They lead to inflation and they shift funds from capital formation to present consumption, thereby improving present well-being at the expense of future well-being.

This is the wrong way to increase opportunities for permanent, productive employment.

Employment and Inflation

To restrain inflation, the bill provides for raising taxes or reducing secondary programs. Programs with priority status would be maintained. This could mean that the allocation of resources would increasingly be determined in the political process rather than in the marketplace.

If labor-intensive economic activities were given high priority in such an intervention, then the rate of growth of the economy and total employment would be retarded. Experience shows that when any sector (labor intensive or not) receives special high priority treatment by government, excess capacity and surpluses appear in later years and unemployment rises as a painful structural correction takes place. Government has never demonstrated an ability to allocate investment expenditures better than the marketplace.

We would prefer a reduction in government expenditures to an increase in tax levels to reduce inflationary pressures that build up when the economy is operating near full production. Government at all levels is spending at an annual rate which is now more than 35 percent of the Gross National Product. As noted earlier, much of this spending goes into current consumption rather than into capital formation. Reducing government spending would not only reduce the already high tax burden on the public, it would encourage the private investment necessary to provide more jobs for our growing labor force.

Raising taxes, on the other hand, would reduce the incentive to work, save, and invest. To illustrate our point: output grew fastest from 1960 to 1973 in those Organization for Economic Cooperation and Development (OECD) nations with the highest investment shares of GNP.

Since the economy is making a steady and widely-based recovery, the real policy problem now is to sustain that recovery to assure the creation of more jobs in 1977 and beyond as well as in 1976. There is a danger that over stimulation of the economy through large increases in federal spending will cause more inflation, dampen investor confidence, and impede the rate of recovery in 1977.

We look to the investment sector to sustain the economic growth rate the economy has now attained. Investment decisions depend on sales and profit expectations, which in turn rest on the cost of capital in terms of interest rates and common stock prices, and these capital costs are directly influenced by inflation rates. A higher rate of inflation could interrupt the process of economic recovery by darkening the investment outlook -- as well as by adversely affecting the real incomes of all consumers. If this were to happen, the people this bill is intended to help would be among those hurt the most.

Our concern about the inflationary impact of this bill is supported by a study completed last November by the Congressional Research Service of the Library of Congress titled, "Public Service Employment to Achieve a 4 Percent Unemployment Rate." The study's conclusion is instructive:

> By the end of 1977, with the elimination of virtually all excess capacity, severe shortages are likely to be common and the resultant rate of inflation could be above 10 percent.
>
> In terms of the labor market, it should be recognized that 4 percent represents a rate of unemployment that the U.S. economy has rarely achieved with its highly mobile labor force. The effects of a program to attain such a low rate are likely to be twofold: difficulty in recruiting skilled workers for critical tasks, adversely affecting productivity, and major increases in wage levels which, though justified by continuing price increases, would nonetheless greatly accelerate the inflationary spiral.
>
> It is true that some of the problems which would accompany the effort to reach 4 percent unemployment perhaps could be contained by other legislative measures. The effect of higher interest rates on the housing market, for example, might be offset by some type of subsidy to the housing industry. The higher interest rates for capital

> borrowing might be mitigated by a Federal measure directing allocation of available credit. The inflationary pressures on wages and prices might be limited by reimposition of wage and price controls.
>
> Each of these measures, however, has its costs. The housing subsidies add to the Federal deficit and may prove an inefficient method of reviving the industry. A system of credit allocation would substitute human judgment for the impartial marketplace, to say nothing of the insuperable administrative difficulties that would be created. To simply mandate an allocation of credit to a specific sector would have the effect of decreasing the available supply of credit to all other sectors, forcing these interest rates still higher. A wage and price control program can on occasion serve limited goals, but a continuing program, as demonstrated by the 1971-1974 experience, leads to distortions, shortages, quality deterioration, and declining acceptability by the public.
>
> Thus, a program to reduce unemployment to 4 percent, while attractive and highly desirable in light of today's excessively high rates of unemployment, would seem to require such a strong dose of economic stimulation that its many side-effects could easily lead to equally damaging consequences.

While this negative conclusion is based on reaching 4 percent in one year instead of 3 percent in 4 years as proposed in H.R.50, it is also based on certain optimistic assumptions. One is that each government-created job is a net addition to the total number of jobs in the economy. In reality, as the study notes, there is evidence of a 50 percent job slippage as federal funds are substituted for state and local funds, as observed earlier in this statement. A 50 percent offset means the gross cost of the program could be doubled, and the negative effects in the study's findings exacerbated accordingly.

Lessons From Great Britain's Experience

For the past several years, Great Britain has experienced worsening inflation-recession as the government has actively intervened to avoid both.

Just last month Prime Minister Harold Wilson's Labor Government announced large cuts in its spending plans. This is part of a broad assault on the country's soaring public spending and national debt, which have produced an inflation rate of 25 percent. This about-face reflects a belated awareness that government-designed full employment measures and ambitious social welfare programs are crippling the economy.

According to Denis Healey, Chancellor of the Exchequer, public spending was rising to the point where the taxes needed to cover it would erode "the will to work." A British worker receiving a weekly wage of $125.00 now pays 25 percent of that wage to the government, whereas just 15 years ago he paid 10 percent. And Britain's Labor Government cannot look to the rich to ease the worker's tax burden. As related in the New York Times, wealthy Britons pay some of the highest taxes in the world — up to 83 percent on earned income and 97 percent on unearned income. To tax away all income over $10,000 would yield the Government only $800 million.

Other consequences of the high public spending have been sagging economic growth and an unprecedented budget deficit that increased over 300 percent between 1970 and 1975. A comparison with our own debt history is disturbing, since the United States has had deficits in 15 of the last 16 years.

Surely we must consider Britain's experience carefully before embarking on any new massive public spending plan, and this includes plans that have the worthy aim of achieving full employment.

Significantly, only one of Britain's 16 sectors will have a substantial increase under the new economic plan, and that is private industry, because during 30 years of public spending growth, industry has been shrinking. "If we want to regenerate manufacturing industry," Mr. Healey is quoted as saying, "then we must leave enough resources free from public expenditure."

This is excellent advice from Britain's Labor Government.

Recommendations

Public Service Employment. The National Chamber supports a limited PSE program that directs job-creating assistance to persons and areas in greatest need: heads of households who are unemployed 15 weeks or longer, who have no employed spouse, and who reside in areas with an unemployment rate of 6.5 percent or more for 3 months. These jobs should fill unmet needs and avoid competing with employment in the private sector. The ceiling of the wage or salary should be the "Lower Family Budget" established by the Bureau of Labor Statistics — about $9,000 for an urban family of four.

Our opposition to a vastly expanded program stems from the conviction that it will have the effect of creating still larger government deficits and more recession-breeding inflation, resulting in rising unemployment in the private economy equalling or exceeding the number of created government jobs -- followed by yet another round of federal government expenditures to create more jobs and causing still more private unemployment.

Supplementary Public Service Employment. Since a conventional PSE program is exceedingly expensive, it must be limited by the indicated criteria in order to avoid competing unduly with funds for investment in the private sector. The limited nature of this program, however, means that some persons will remain jobless during a period of high unemployment. The subcommittee might, therefore, consider a supplementary PSE pilot program that would pay somewhat less than the minimum wage, along the lines suggested by Federal Reserve Board Chairman Arthur Burns and endorsed recently by former Council of Economic Advisers Chairman Herbert Stein.

While the Chamber has no policy position on Mr. Burns' proposal, we believe it merits consideration as a means of providing productive work and income, and the wage restriction would help avoid expanding public jobs at the expense of private industry. It would also permit a significant reduction in unemployment insurance (UI) and other transfer payments -- provided beneficiaries of these transfer payment programs become ineligible for future benefits on being offered one of these jobs.

The jobs could be targeted to youth, since almost half of the unemployed are under 25, and especially to youth in the central cities. The program could first be introduced in about 10 cities, to test its effectiveness and provide experience in ways to improve its administration, if a national program appears warranted.

Older workers would also be eligible to participate, and at this salary level those with families to support would still be eligible for various forms of public assistance.

Experience may show that few persons want these jobs. Studies by Martin Feldstein of Harvard University and others indicate that a high proportion of unemployment among young people stems as much from a loose attachment to the labor force as from a lack of jobs. They work for a short time to accumulate spending money and then quit, knowing they can usually find a similar job almost any week they need one.

A main purpose of the pilot program would be to test the "market" for low-paying community service jobs, and in the process, to learn the extent that the unemployment rate is a result of an absolute lack of jobs, and the extent to which it stems from a casual desire for work. If the jobs were available for all who want them, then we could assume that persons still out of work are voluntarily unemployed.

The above two recommendations contrast with H.R.50, which mandates Davis-Bacon standards of pay for "work of the type" to which this Act applies.

Requiring prevailing wage rates -- whether they be Davis-Bacon or otherwise -- for a large-scale public jobs program would cause a shift of workers from the private sector to the public sector, especially among middle- and lower-paid workers. Government salary scales are higher than private salary scales for jobs at this level, and vacation, retirement, and other fringe benefits are much more generous. Here again, we would have a substitution effect with serious slippage in the net increase in employment, while at the same time imposing a substantially increased tax burden on the taxpayer.

Another consideration is that a large-scale jobs program paying prevailing wage rates of $8,000 to $12,000 or more would draw many persons into the labor force who were not previously seeking work. This occurrence would rapidly escalate program costs, with much of the additional expenditure going to persons with a marginal propensity for work. It also compounds the difficulty of achieving a sustained reduction in the rate of unemployment.

UI Limitation. The UI program serves a most useful function of preserving a desirable degree of economic freedom for the unemployed to seek out employment of their own choice. Benefits range from $65 to $165 a week, are untaxed, free of all work-related costs, and paid for as long as 65 weeks. In many states, little or no job search is required for receipt of benefits. As such, UI can be a substantial work disincentive. Any large-scale jobs program must be tied into a limitation of these and other transfer payment benefits.

Workers should continue to have their first 13 weeks of unemployment free to spend full-time seeking employment. After this period and on being offered a public service job, their eligibility for continued benefits should cease after a grace period of a few weeks. Only in this way can there be realized the savings essential to offset some of the costs of the program.

Minimum Wage Differential. The National Chamber has consistently supported a minimum wage for youth that would be less than the statutory minimum wage for adults, similar to the student differential now in law. The economic value of a person's labor can best be determined by his productivity. If the legal minimum is substantially more than is justified by the value of the service relative to demand, then employers will tend to substitute capital for labor, or abolish the job.

Employment opportunities for youth could be further expanded by recognizing that their level of maturity, judgment, and productivity rarely warrant the same pay as an experienced adult worker.

Job Vacancies. Since public service jobs are deemed necessary because of a shortage of conventional public and private jobs, the following labor market information becomes essential if this program is fully to serve its intended purposes:

-- How many jobs are available throughout the economy?

-- What are their pay scales and skill requirements?

-- Where are they located?

-- What kinds of jobs are most difficult to fill?

Answers to these questions, along with related information on worker locations and skills, would help the Congress and the Administration design a public service jobs program that supplements, rather than competes with, existing job opportunities. The monthly job vacancy series which was terminated in 1973 should be revived, and as much publicity should be given to the job vacancy rate as is now given to the unemployment rate. Unfortunately, labor unions have opposed job vacancy data apparently because they fear knowledge of vacancies would weaken unemployment policy.

The "Silent Invasion." The Chamber recommends that the Subcommittee carefully study the issue of the extent to which illegal aliens are displacing citizens from gainful employment and otherwise detracting from the strength of our economy.

Estimates of the number of illegal aliens in this country run from 4 to 12 million. The Immigration and Naturalization Service (INS) estimates there are 7 to 8 million illegal aliens with well over one million holding jobs.

Leonard F. Chapman, Jr., Commissioner of INS, advised Congress as early as September, 1974, that "the Immigration Service could make available in a few months a million jobs for unemployed Americans" if given adequate resources. He estimated that an additional 2 or 3 million jobs could be opened up over the next 3 or 4 years. In short, stemming the rising flood of illegal aliens and replacing working illegal aliens with unemployed Americans could substantially cut unemployment, according to Commissioner Chapman's predictions.

Mr. Chapman also destroyed some of the myths surrounding this problem. The jobs held by illegal aliens are not all low-paying agricultural jobs unwanted by legal residents. Of the one million jobs he referred to, more than one-third are in industry. The Immigration Service has apprehended many illegal aliens working as painters earning nearly $10 an hour, dry wall installers earning nearly $9 an hour, and carpenters earning over $7 an hour.

While we are not unsympathetic to the needs of the poor of the world and those aliens illegally in this country, we urge this Subcommittee to consider the magnitude of this problem -- the degree to which illegal aliens are occupying jobs needed by unemployed Americans, are evading or underpaying taxes, burdening our welfare and social services, and adversely affecting our balance of payments through the dollars they send to their home countries.

Even discounting some of the INS estimates, it seems clear that we could significantly resolve our serious unemployment problems simply by vigorously enforcing our immigration laws, especially when we consider that the number of illegal aliens is rising by 225,000 annually.

Manpower Training. The Congress should continue its support of CETA, the Comprehensive Employment and Training Act. This first effort to decentralize and decategorize national programs is providing the anticipated flexibility in planning and administering local manpower efforts. In a recent survey, chambers of commerce expressed a strong preference for the CETA approach over the former method of contracting with the Department of Labor in Washington for individual program funding. The local manpower planning councils are far better able to design on-the-job training, classroom training, and work experience programs for youth that are most responsive to local employment conditions. The National Chamber will offer recommendations during the CETA Oversight Hearings to further improve this training and employment program.

Career Education. Too many of our youth spend the first few years on leaving school going from job to job, learning the kind of work they want to do and gaining the skills necessary to begin advancing in a career. This job exploration and its resulting high turnover of young people in jobs contributes significantly to youth unemployment.

Job exploration and development of career interests should begin much earlier while students are still in school. The career education concept, which includes vocational education, responds to this need.

As early as the lower elementary grades, students begin learning about the many different ways people earn a living. This is followed in the secondary schools with career exploration, in which employers visit schools to describe their company's operations, and students visit offices and work sites to learn first-hand the nature of various lines of work and the education and training necessary to qualify. Many students perform work tasks for school credit and sometimes for pay in school-business cooperative education arrangements. This experience helps avoid the usual floundering the first few years after leaving high school or college because the student is better prepared to enter the world of work and advance in a trade or profession.

While career education will not solve the unemployment problem it will help reduce that portion of youth joblessness that stems from a lack of career objectives and the resulting casual attitude toward work.

The National Chamber several years ago endorsed the career education concept and has testified in support of federal expenditures for developing pilot programs. We also support H.R.11023, the bill recently introduced by Mr. Perkins to accelerate the implementation of career education.

PART II -- NATIONAL ECONOMIC PLANNING ASPECTS

These comments relate to Title 1 of H.R.50, "Establishment of Goals, Planning and General Economic Policies". Because this bill would be so important to the lives of 215 million Americans, we believe its proposals should be subjected to thorough analysis and its implications carefully considered before action is taken.

We share the Committee's desire to improve national economic policy by increasing Congress' ability to evaluate ongoing and newly proposed policies and programs in the context of their long-term effects and by directing more attention to the interactions among existing federal policies and and programs. However, the national economic planning proposal in H.R.50 is the wrong way to improve national economic policy, primarily for these three reasons:

(1) Implementation of the planning proposal as written would cause serious inflationary pressures within a very short time, thereby creating the conditions for another recession and for a return to wage-price controls.

(2) The proposal would enlarge the role of the federal government in the economy at a time when many people are disenchanted with the seemingly inexorable growth of federal spending, taxes and other manifestations of the growing federal government presence in their lives.

(3) The proposal does not adequately consider the implications of its major provisions. For example, there is good reason to believe that the bill's attempt to make abstract national goals explicit and concrete would fail. In specifying a group of national goals the bill presumes a consensus which does not, in fact, exist.

Effect of Inflation

The national economic plan proposed in the bill would eventually produce inflation by discouraging the monetary and fiscal policies necessary to combat inflationary pressures and by increasing the magnitude and variability of the federal government's impact on the economy. There is the implicit suggestion in the planning proposal that inflation results mainly from supply factors and the decisions of suppliers. Little attention is given to the role of federal deficit spending and excessive increases in the supply of money as sources of inflation.

The plan would frustrate efforts to reduce government expenditures or limit the rate of growth of the money supply and the availability of credit to reduce inflation. Thus the plan, with its expansionary spending objectives and restrictions on anti-inflationary fiscal and monetary policies, would assure an increase in inflation.

The plan suggests programs and policies for increasing supplies in structurally tight markets. To restrain inflation, export licensing would also be used to increase domestic supplies of certain goods in short supply.

The constraints on fiscal and monetary policy in combination with the expansionary character of the plan would open the door to proposals for wage-price controls when inflation rates begin to rise intolerably. This effect runs counter to the bill's proposal that the Employment Act of 1946 be amended to require in the President's Economic Report: "(7) recommendations for administrative and legislative actions to promote reasonable price stability if situations develop that seriously threaten national price stability".

Experience with wage-price controls demonstrates that inflationary pressures can be contained only temporarily by such measures and that the side effects are harmful to the economy. Controls impede necessary increases in productive capacity; they redirect domestic production into international markets; they create shortages of products and services that have low rates of return on sales and they slow the growth of employment opportunities.

Similarly, it is not possible to hold down specific interest rates without allocative side effects and it is not possible to hold down the general level of interest rates without generating the conditions for higher inflation. Since inflation is a component of long-term interest rates, the measures that keep interest rates low in the short run will increase them in the long run.

Promoting the Public Sector

Section 106 would amend Section 3B of the 1946 Employment Act and would constrain the President's Budget and Economic Report to consistency with the goals, objectives and other provisions of the proposed Economic Plan. A central objective of the bill is three percent unemployment within four years of the bill's enactment. The President's Economic Report is to set forth fiscal policy that would be consistent with the goals of the plan. If high expenditure levels were deemed necessary to obtain the goals, then taxes would be increased to restrain inflationary pressures encountered at full production.

The bill goes further; it sets forth the general principle that priority expenditures established in Section 3A would not be reduced, or would be reduced very little, so long as it is feasible to reduce less important expenditures or to use tax policy to " . . .balance the federal budget, or create a surplus . . . ., restrain excessive economic activity and inflation. . ., and. . .contribute to the needed level and distribution of purchasing power".

Implementation of this provision would limit the consumer's freedom of choice. The President and the Congress would often decide which major sectors of the economy were to be favored and which penalized. Presumably, the sectors favored would be those specified in Section 104, Section 3A(e). Government spending, federal tax policy and monetary policy would each be actively used to implement the objectives derived from the reordered and explicit national priorities contained within the plan.

By substantially raising the level of federal spending, H.R.50 would give priority to public spending over private spending. When the bill further recommends that tax increases in lieu of federal spending cuts be used to balance the budget and restrain inflationary pressures at full production, it implies a reallocation of resources from the private to the public sector.

Such policies would increasingly take decision power from consumers and investors and give it to the Congress and the Executive Office. This provision should be reviewed in the context of the bill's Declaration of Policy whereunder government is to conduct its programs and policies ". . . in a manner calculated to foster and promote free competitive enterprise and the general welfare . . ."

Under other provisions of the bill, the President's Economic Report would also set forth a monetary policy conducive to achieving the goals specified in the plan. This would include, among other things, policies of credit allocation that would further weaken the market system by substituting the political process for the marketplace in allocating credit. The financial markets are a more efficient allocative mechanism than the Congress or the Executive Office. Assuring ready credit availability to one sector of the economy would mean less credit availability to other sectors. Such purposeful intervention in credit markets would likely have unanticipated side effects in other economic sectors. For example, it would increase uncertainty in the investment outlook for particular industries, thereby retarding investment growth in some industries while attempting to increase it in others.

No Consensus.

The plan's success presupposes some set of explicit concrete National Goals on which there is a national consensus as to content and rank order. Such a consensus does not exist. Even a perceived national priority is not permanent. Our national priorities change often, in line with perceptions and conditions. In recent years the nation has been concerned with double-digit inflation, materials and food shortages, consumerism, energy independence, environmental goals, economic instability, as well as full employment. Any one of these national priorities must be analyzed and debated in the context of the others.

A national consensus may appear to exist when a national goal is stated in abstract terms. But when the goal is redefined in concrete terms or when a concrete objective is derived from the goal, and its implications are specified, it is found that the presumed consensus did not exist. The differences must be reconciled in the political process.

It is perhaps possible for the nation to achieve the concrete objective of three percent unemployment within four years if the plan in this bill were to be fully accepted and implemented; but the cost would be extremely high in terms of inflation, unpredictable shortages and surpluses accompanying credit allocation, subsidization, wage-price controls, the loss of economic freedom, the potential loss of some world markets, and large increases in federal taxes on both individuals and corporations. One question at issue is whether this goal is worth the costs. Another question involves alternative ways of reducing unemployment without incurring such great costs.

Congress reconciles the differences in political preferences. One means for responding to changes in emphasis among national priorities is the new congressional budgeting process which we support, precisely because this process fits into our unique political and economic institutions.

Economy in Government

The National Chamber can endorse the spirit of Section 105 where it addresses efficiency and economy in government. However, it is not yet established that efficiency and economy in government requires a comprehensive planning framework like that established by the "Full Employment and Balanced Growth Plan" embodied in Section 104 of the bill. The alleged need for better management, more foresight and coordination within the federal government is best considered separate from the broader issue of national economic planning.

The Chamber supports the goal of increasing Congressional foresight and concern with the long-term effects of its actions. But the plan proposed in this bill is not the way to accomplish this goal. It would cause serious inflation and it would substantially enlarge the presence of the federal government in our economic and social activities. The bill does not fully consider the implications of its proposals.

We have appreciated the opportunity to testify on the bill. The Chamber is studying both national economic planning and domestic employment policy. We shall be happy to cooperate in these and future hearings as our own work and deliberations proceed; and we hope that these hearings will stimulate better proposals to improve the process by which our nation arrives at its long-term priorities.

Conclusion

The foregoing arguments in opposition to H.R.50 stem from a basic difference in conception between the Chamber and the bill's sponsors on how our economy now works, and on how it would work if the economic planning-full employment measures of this bill were enacted. We still believe that economic prosperity is more nearly assured by enabling consumers to have more to say, rather than less, about where investment should take place; and restraining, rather than encouraging, government intervention in financial markets and resource allocation.

We conclude that measures in support of economic planning and full employment, as set forth in this bill, would produce at best only a temporary improvement in economic activity, followed by a resurgence of inflation and recession-caused higher unemployment. The best policy for more nearly achieving a long-term solution consists of moderate fiscal and monetary policies and employment-creating measures tailored to the structural nature of much of our unemployment.

Since we share the common aim of providing more employment for all, we hope that from our discussions there will emerge understandings that foster progress toward this end.

PREPARED STATEMENT OF E. STANLEY RITTENHOUSE, LEGISLATIVE AIDE, LIBERTY LOBBY

Mr. Chairman and Members of the Committee: I am E. Stanley Rittenhouse, Legislative Aide of Liberty Lobby. I appreciate this opportunity to submit for the record our statement representing the views of Liberty Lobby's nearly 25,000-member Board of Policy and also on behalf of the approximately quarter million readers of our weekly newspaper, the Spotlight.

Would you fight a forest fire by flooding the flames with gasoline? That is the approach this misnomer, the "Full Employment and Balanced Growth Act," takes in applying a quack cure to our economic ills.

H.R. 50 is a license to spend to infinity. The primary cause of inflation and of the resulting unemployment from the slowing of the economy is deficit spending by the U.S. as implemented by the Federal Reserve. This bill would mandate and generate the most massive deficit spending this country has seen to date—and this country has seen much, with a deficit of more than $600 billion.

Inflation causes unemployment; H.R. 50 would cause inflation.

This "Five Year Program" (quoting Senator Humphrey) is a warmed-over Five Year Plan the communists have tried to launch for years. If it were not for the West, Russia would have starved and collapsed from within years ago. Should H.R. 50 pass, the same could eventually happen to America.

In order for government to spend massive amounts of funds to "guarantee" employment of 97% of the "work force," the funds either must come from taxes, bled out of workers (middle class), or from future generations in the form of debt at high interest rates. This bill would mandate greater spending, higher taxes and more debt. It is impossible to spend yourself into prosperity. And with the degree of efficiency of most government operations, the debt generated would be greater than any benefits.

If more deficit spending would answer our economic woes, our deficit of more than $600 billion and rapidly going even higher (45% of the total debt created in the last seven years), we should have no inflation, no unemployment, a confident economy and such a high level of prosperity that the deficit would be a "myth." President Franklin D. Roosevelt explained this attitude toward deficits with a glib "we owe it to ourselves." But what we "paid ourselves" was more debt, rampant inflation, more unemployment and loss of confidence in our economy. The "something for nothing" boys have ruined the economy with heavy doses of socialism and its resulting debts. Now they propose more of the cause in order to solve the effect. This type of reasoning is irrational, as history has demonstrated time and time again.

H.R. 50 would generate greater inflation at a more rapid rate which, in turn, would dry up venture capital. Venture capital is the money that is risked in uncertain investments combined with an unstable monetary situation. Withdrawing venture capital would result in lower productivity.

Confidence can't be legislated into an economy; it results from a sound economic situation. The sponsors of the bill want to push on the string by foolishly attempting to create confidence when all they would create would be the woes of deficits, devaluations and depressions.

The general findings state that "Congress finds that the Nation has suffered substantial and increasing unemployment and underemployment, over prolonged periods of time, imposing numerous economic and social costs." This results from the injection of excessive socialism into our competitive, free enterprise system. H.R. 50 proposes more socialism—more of the cause in order to resolve the effect. This is not the solution!

The Full Employment and Balanced Growth Plan would create massive unemployment and an unbalanced, non-growth economy as the bureaucrats in their infinite wisdom go off on uncontrolled unchecked sprees.

Under Title I—Establishment of Goals, Planning, and General Economic Policies, the Declaration of Policy states that "the Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means . . . to foster and promote free competitive enterprise . . . and to promote full employment, production, and purchasing power."

The basic premise of this bill is in error. It is not the responsibility of the Federal Government to promote socialistic schemes within a free market. If this is not true, then there is no economic liberty and without that there are no human rights.

How ironic it is that those who cry out for human rights are the same people who would deny these rights by taking away economic freedom.

It is impossible to "promote free competitive enterprise" with heavy doses of socialism. And it is also impossible to "promote full purchasing power" with a bill that would produce more inflation with deficit spending. Inflation is the reduction or dilution of the purchasing power of our dollar. The proclaimed goal and proposed solution run in completely opposite directions.

The "employer of last resort" becomes the employer of first resort, as demonstrated by past growth of the federal payroll. Since Franklin D. Roosevelt, the cost of government and welfare has skyrocketed. Back in 1933, the total federal civilian employment was slightly more than 605,000, with a very small percentage of the populace working for the government at ALL levels. Today, the figure has soared to about 13.4 million, or one out of every six wage earners employed by the federal, state or municipal governments. The total federal payroll is now more than $40 billion. This does not include the almost uncountable, and now uncontrollable, welfare recipients at the various government levels. An indication of how massive this problem has become is the fact that social services are now 57% of the federal budget.

The "Full Employment" name given H.R. 50 is misleading for it is, as history will prove, a massive welfare bill with a "Full Employment" label. This bill does nothing more than exploit the free enterprise structure in order to bring about a socialist state.

What is little known and rarely mentioned is the off-the-federal-payroll jobs which cost the taxpayers $60 billion per year. This new invisible bureaucracy is growing steadily and probably at a more rapid rate than the "surface government." How many of these "non-federal" employees are on the taxpayers' payroll is not known. However, it is known that fewer and fewer private taxpayers are supporting more and more of this type of employee.

Congress must curb the executive branch as it accumulates more and more power to itself via the massive expenditure of money and manpower. Having accomplished that, Congress then does not want to be guilty of this same dastardly deed by passing H.R. 50. The federal bureaucrat and socialist politicians have shown us that power corrupts and absolute power corrupts absolutely. Over the years, the rights of the states have yielded to the power of the federal government. This bill would produce even bigger government and further reduce the states' roles by restructuring into regions.

Sec. 204 states: "The President shall within 180 days after the date of enactment of this Act transmit to Congress a comprehensive regional and structural employment proposal." And "formulating the regional components of such a proposal" reflects the ultimate plan of the ultra-leftists to take government further away from the American people. When the citizens lose more and more direct control over their government at the state level, the power then flows to a more powerful and higher level; that, is into the hands of the U.S. Regionalism is a substitution and consolidation of the states' roles.

Many people who advocate this removal of power and authority from local or state control also advocate a world government. And the danger here is that regional government will much more readily adapt to dealing with international organizations. So, regionalism within America leads to a loss of constitutional state sovereignty and of national sovereignty within the world structure; thus, regionalism would concentrate power into the hands of the one-world government advocates. Many leaders of this legislation in both houses frequently promote moves toward a one-world government.

This legislation also involves itself with education and day care. Federal control of children is another pet project of the leftists who wish to regiment our society totally. "Priority policies and programs to support full employment and balanced growth shall initially include . . . the quality and quantity of health care, education, day care, and housing essential to a full economy . . ." This, of course, required more government control. All of us would come under the control of the bureaucrat. Besides, the federal government is a notorious bumbler in trying to handle these obviously local problems.

The same page calls for "such other priority policies and programs as the President deems appropriate." This promotes an even greater degree of control, especially when the President implements an executive order. The President, under these conditions, would have the power of a king. This legislation would turn the calendar back 200 years.

The Full Employment and Balanced Growth Plan states that the "President shall review the full employment goal and time table required by this section and report to Congress on any obstacles to its achievement and, if necessary, propose corrective economic measures. . . ." This would provide for the total destruction of our free enterprise system.

This bill is also another sample of asking Congress to turn over to unelected bureaucrats its authority and responsibility of making the laws of the land. "The Secretary (of Labor), in carrying out the provisions of this section, shall establish such regulations as he or she deems necessary." To give such power into the hands of bureaucrats not directly accountable to the American people provides the way for unbridled power that would be quite difficult to check and control. It is this approach that has created so many of our alphabetical monsters (OSHA, EPA, etc.) that have the force of law but none of the restraints upon those elected by the people. This type of legislation subverts and perverts our Constitution.

The expense of the exploding bureaucracy required to administer this monster and the cost of "creating" jobs would far exceed any "benefit." History has proved this time and again. The mere fact we are $600 billion in debt 30 years after the Full Employment Act of 1946 speaks volumes.

Wishful thinking does not alter the fact that this bill would put America even deeper in debt and thus create more inflation and more unemployment. What the proponents seek to avoid, unemployment, is exactly what will be produced. This bill is economic suicide.

The proposal to find jobs comparable to one's previous "standard" is ludicrous. When times are tough, one tightens his belt—as every generation has done in the past. To offer a dole merely because one cannot maintain his income level is to assure even more welfare, handouts and abuses. This openly advocates greater inefficiency within our economy.

"The Congress shall initiate or develop such legislation as it deems necessary to implement these proposals and objectives . . ." This one sentence in Sec. 302 is a mandate, a requirement to spend and spend which would result in a total collapse of our economy and eventually our Nation.

This bill would limit and severely control any open debate on the merits of the proposals and alterations. As an example, the bill states to Sec. 304 that the Joint Economic Committee will receive testimony "as the Joint Committee deems advisable." This would be another "tree" for the committee to hide behind in the vent the public wants to be heard. The committee could give the excuse that it is the law of the land and not their decision.

It would also limit the debate and open forum by severely restricting the time allowed. This tends to give momentum to the Proposed Plan as it would appear in the concurrent resolution. A limit of 10 hours' debate on the concurrent resolution, two hours' debate on any amendment and one hour on any amendment to an amendment precludes any thorough analysis or discussion.

This boondoggle of massive spending does not even place any limit on the handouts to the loafer or the alien. The official figure of illegal aliens is estimated to be 8 million in the U.S. with the majority, more than 4 million, holding jobs. However, that figure probably runs closer to 12 million, indicating that the number of illegal aliens holding jobs here is closer to 6 million.

Gentlemen, you are urged to vote against this socialistic legislation because it would sell out the future of all Liberty Lobby members and subscribers, and all Americans. It is Marxist in its concept and would result in the opposite of its purported goal of assuring full employment. The deficit spending, the inflation and the resulting unemployment would contribute to a total and nonrecoverable national bankruptcy with resulting anarchy and the overthrow of our system. Let us not legislate that in this year of the 200th anniversary of our freedom.

Thank you again for this opportunity to submit this statement for the record.

U.S. CATHOLIC CONFERENCE,
Washington, D.C., April 26, 1976.

HON. DOMINICK V. DANIELS,
Chairman, Subcommittee on Manpower, Compensation, Health and Safety, Committee on Education and Labor
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN. Your Subcommittee on Manpower, Compensation, Health and Safety will shortly be acting on H.R. 50, the "Full Employment and Balanced Growth Act of 1976." In a major statement entitled, The Economy: Human Dimensions, the Catholic Bishops of the United States declared:

"Fundamentally our nation must provide jobs for those who can and should work and a decent income for those who cannot. An effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee, through appropriate mechanisms, that no one seeking work would be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic goals."

I have attached our recent testimony on H.R. 50, presented by Bishop Eugene Marino on March 15, 1976 before the House Subcommittee on Equal Opportunity. In his testimony, Bishop Marino said:

"We want to take this opportunity to declare our basic support for H. R. 50, the Full Employment and Balanced Growth Act of 1976. And express our view that it provides the most comprehensive and useful approach to full employment now before Congress. This legislation can and should be further refined and improved as it makes its way through the legislative process. However, we urge that its basic thrust toward comprehensive planning and job creation leading to genuine full employment not be diluted."

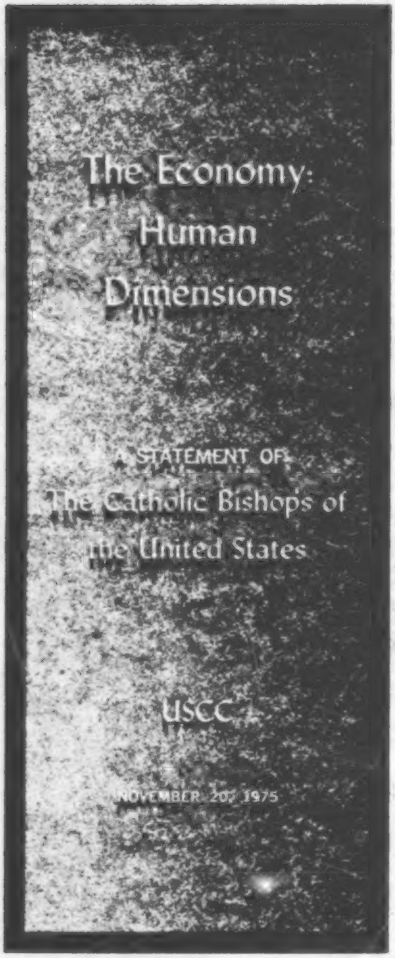
Through structural reforms, comprehensive economic planning and job creation programs, this legislation provides a meaningful and workable mechanisms for achieving full employment.

We urge you to support this important legislation.

Sincerely,

FRANCIS J. LALLY.

Enclosure.



The Economy: Human Dimensions

A STATEMENT OF
The Catholic Bishops of
the United States

USCC

NOVEMBER 20, 1975

THE ECONOMY: HUMAN DIMENSIONS

> "This unemployment returning again to plague us after so many repetitions during the century past is a sign of deep failure in our country. Unemployment is the great peacetime physical tragedy of the nineteenth and twentieth centuries, and both in its cause and in the imprint it leaves upon those who inflict it, those who permit it, and those who are its victims, it is one of the great moral tragedies of our time."
>
> The Bishops of the United States,
> *Unemployment*, 1930.

1. This was the judgment of our predecessors as they responded to the economic crisis of 1930. As pastors, teachers and leaders, we recall and emphasize their words as our country faces important economic, social and moral decisions in the midst of the highest unemployment since the 1930s.

I. THE CHURCH'S CONCERN

2. Despite recent hopeful signs, the economy is only slowly and painfully recovering from the recent recession, the worst since World War II. We are deeply concerned that this recovery may lack the strength or duration to alleviate the suffering of many of the victims of the recession, especially the unemployed. It is the moral, human and social consequences of our troubled economy which concern us and their impact on families, the elderly and children. We hope in these limited reflections to give voice to some of the concerns of the poor and working people of our land.

3. We are keenly aware of the world-wide dimensions of the problem and the complexity of these issues of economic policy. Our concern, however, is not with technical fiscal matters, particular economic theories or political programs, but rather the moral aspects of economic policy and the impact of these policies on people. Our economic life must reflect broad values of social justice and human rights.

II. THE CHURCH'S TEACHING

4. Our own rich heritage of Catholic teaching offers important direction and insight. Most importantly, we are guided by the concern for the poor and afflicted shown by Jesus, who came to "bring good news to the poor, to proclaim liberty to captives, new sight to the blind, and to set the downtrodden free" (Luke 4:18). In addition, the social encyclicals of the Popes and documents of the Second Vatican Council and the Synod of Bishops defend the basic human right to useful employment, just wages and decent working conditions as well as the right of workers to organize and bargain collectively. They condemn unemployment, maldistribution of resources and other forms of economic injustice and call for the creation of useful work experiences and new forms of industrial organization enabling workers to share in decision-making, increased production, and even ownership. Again and again they point out the interrelation of economics and ethics, urging that economic activity be guided by social morality.

5. Catholic teaching on economic issues flows from the Church's commitment to human rights and human dignity. This living tradition articulates a number of principles which are useful in evaluating our current economic situation. Without attempting to set down an all-inclusive list, we draw the following principles from the social teachings of the Church and ask that policy-makers and citizens ponder their implications.

a. Economic activity should be governed by justice and be carried out within the limits of morality. It must serve people's needs.[1]

b. The right to have a share of earthly goods sufficient for oneself and one's family belongs to everyone.[2]

c. Economic prosperity is to be assessed not so much from the sum total of goods and wealth possessed as from the distribution of goods according to norms of justice.[3]

d. Opportunities to work must be provided for those who are able and willing to work. Every person has the right to useful employment, to just wages, and to adequate assistance in case of real need.[4]

e. Economic development must not be left to the sole judgment of a few persons or groups possessing excessive economic power, or to the political community alone. On the contrary, at every level the largest possible number of people should have an active share in directing that development.[5]

f. A just and equitable system of taxation requires assessment according to ability to pay.[6]

g. Government must play a role in the economic activity of its citizens. Indeed, it should promote in a suitable manner the production of a sufficient supply of material goods. Moreover, it should safeguard the rights of all citizens, and help them find opportunities for employment.[7]

6. These are not new principles. They are drawn directly from the teachings of the Church, but they have critical relevance at this time of economic distress. Under current conditions, many of these principlas are being consistently violated.

III. DIMENSIONS OF THE ECONOMIC SITUATION

7. In these reflections we wish to examine briefly the dimensions of our economic problems in three areas: unemployment, inflation and distribution of wealth and income.

A. Unemployment

8. In October, government figures show eight million persons were unemployed, representing 8.6% of the work force.[8] Millions of other persons have given up seeking work out of discouragement or are in part-time jobs although they desire full-time work. Taking this into account, the actual level of unemployment in our country is over 12%. It is estimated that 20 million people will be jobless at some time this year, and that one-third of all Americans will suffer the traumatic experience of unemployment within their families.

9. The official unemployment rate does more than underestimate the true extent of joblessness. It also masks the inequitable distribution of unemployment. The figures for October indicate that minorities, blue collar workers, young people and women bear a disproportionate share of the burdens of joblessness.[9]

10. These realities clearly indicate that the nation's commitment to genuine full employment has been seriously eroded, if not abandoned. Since World War II, unemployment has been substantial, persistent and drifting upward. In fact, when joblessness rose dramatically during the latest recession, it took the form of an acute and visible crisis, superimposed on a long-term unemployment problem which has persisted for decades.

11. The costs of this tragic under-utilization of our country's human resources are enormous. In economic terms, these high levels of unemployment cost literally hundreds of billions of dollars in lost productivity and tens of billions of dollars in lost revenue and increased expenses for all levels of government.

12. As lamentable as these financial costs are, the social and human impact is far more deplorable. In our society, persons without a job lose a key measure of their place in society and a source of individual fulfillment; they often feel that there is no productive role for them. Many minority youth may grow up without meaningful job experiences and come to accept a life of dependency. Unemployment frequently leads to higher rates of crime, drug addiction, and alcoholism. It is reflected in higher rates of mental illness as well as rising social tensions. The idleness, fear and financial insecurity resulting from unemployment can undermine confidence, erode family relationships, dull the spirit and destroy dreams and hopes. One can hardly bear to contemplate the disappointment of a family which has made the slow and painful climb up the economic ladder and has been pushed down once again into poverty and dependence by the loss of a job.

13. The current levels of unemployment are unacceptable and their tremendous human costs are intolerable. Unemployment represents a vast and tragic waste of our human and material resources. We are disturbed not only by the present levels of joblessness, but also by official government projections of massive unemployment for the rest of this decade. We sincerely hope that these figures do not represent resignation to the human and economic waste implied in these rates

of unemployment. As a society, we cannot accept the notion that some will have jobs and income while others will be told to wait a few years and to subsist on welfare in the interim. For work is more than a way to earn a living. It represents a deep human need, desired not only for income but also for the sense of worth which it provides the individual.

B. Inflation

14. There are those who insist that we must tolerate high levels of unemployment for some, in order to avoid ruinous inflation for all. Although we are deeply concerned about inflation, we reject such a policy as not grounded in justice. In recent years, our country has experienced very high levels of inflation. During this past year, there has been some reduction in inflation, but there are already signs of its renewal, spurred by large increases in food and fuel prices.

15. Inflation weakens the economic stability of our society and erodes the economic security of our citizens. Its impact is most severe on those who live on fixed incomes and the very poor. The double distress of inflation and recession has led to a painful decline in real income for large numbers of people in recent years. Clearly, steps must be taken to limit inflation and its impact.

16. However, low unemployment and high inflation are not inevitable partners, as history and the experience of other industrialized countries bear out. Policy-makers should seek and use measures to combat inflation which do not rely upon high rates of joblessness. For many of our fellow citizens, the major protection against inflation is a decent job at decent wages.

C. Distribution of Income and Wealth

17. Within our country, vast disparities of income and wealth remain. The richest 20% of our people receive more income than the bottom 60% combined. In the area of ownership, the disparities are even more apparent. The top one-fifth of all families own more than three-fourths of all the privately held wealth in the United States while over one-half of our families control less than 7% of the wealth.

18. The distribution of income and wealth are important since they influence and even determine our society's distribution of economic power. Catholic social teaching has condemned gross inequality in the distribution of material goods. Our country cannot continue to ignore this important measure of economic justice.

IV. POLICY DIRECTIONS

19. Fundamentally, our nation must provide jobs for those who can and should work and a decent income for those who cannot. An effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee, through appropriate mechanisms, that no one seeking work would be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic goals. We would support sound and creative programs of public service employment to relieve joblessness and to meet the vital social needs of our people (housing, transportation, education, health care, recreation, etc.).

20. The burden and hardship of these difficult times must not fall most heavily on the most vulnerable: the poor, the elderly, the unemployed, young people and workers of modest income. We support efforts to improve our unemployment compensation system and to provide adequate assistance to the victims of the recession. Efforts to eliminate or curtail needed services and help must be strongly opposed.

21. We continue to support a decent income policy for those who are unable to work because of sickness, age, disability or other good reason. Our present welfare system should be reformed to serve our country and those in need more effectively.

22. Renewed efforts are required to reform our economic life. We ask the private and public sectors to join together to plan and provide better for our future, to promote fairness in taxation, to halt the destructive impact of inflation and to distribute more evenly the burdens and opportunities of our society. We also ask that consideration be given to a more efficacious use of the land, the nation's primary resource in order to provide gainful employment for more people. We should also explore the impact of technology and endeavor to preserve the small family farm and other approaches to economic life which provide substantial and productive employment for peo-

ple. It is not enough to point up the issues in our economy and to propose solutions to our national problems while accepting uncritically the presupposition of an economic system based in large part upon unlimited and unrestrained profit.

23. We pledge our best efforts in support of these goals. We call on local parishes, dioceses, Catholic institutions and organizations to undertake education and action programs on issues of economic justice. We renew our commitment to assist the needy and victims of economic turmoil through programs of financial assistance and active participation in the dialogue over the formulation and implementation of just economic policies. We call on our people to pray for our country in this time of need and to participate in the difficult decisions which can still fulfill the promise of our land.

24. Working together with renewed vision and commitment, our country has the productive capacity and human and material resources to provide adequately for the needs of our people. We take this opportunity to renew the challenge of our fellow Bishops of 45 years ago:

> "Our country needs, now and permanently, such a change of heart as will, intelligently and with determination, so organize and distribute our work and wealth that no one need lack for any long time the security of being able to earn an adequate living for himself and for those dependent upon him."
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> The Bishops of the United States,
> *Unemployment*, 1930

APPENDIX

In adopting this resolution, the Bishops sought to link this effort to a major statement issued in 1919 on similar matters. Entitled, "The Bishops' Program For Social Reconstruction," the statement called for: minimum wage legislation; unemployment insurance and protection against sickness and old age; minimum age limit for working children; legal enforcement of the right of labor to organize; a national employment service; public housing; and a long term program of increasing wages.

It also urged: prevention of excessive profits and incomes through regulation of public utilities and progressive taxes on inheritance, income, and excess profits; participation of labor in management; a wider distribution of ownership through cooperative enterprises and worker ownership in the stock of corporations; and effective control of monopolies even by the method of government competition if that should prove necessary.

Most of these proposals have been enacted. Partial progress has been made toward others. The 1919 statement provides a historical framework for the current resolution and evidences a long-standing concern for economic justice on the part of the Catholic community in this country.

FOOTNOTES

[1] Vatican II, *The Church In The Modern World*, 64; John XXIII, *Mater et Magistra*, 38-39.

[2] Vatican II, *The Church In The Modern World*, 69.

[3] John XXIII, *Mater et Magistra*, 71.

[4] Pius XI, *On The Reconstruction of The Social Order*, 74; John XXIII, *Pacem In Terris*, 11, 18; Vatican II, *The Church In The Modern World*, 67; Paul VI, *A Call To Action*, 6.

[5] Vatican II, *The Church In The Modern World*, 65.

[6] John XXIII, *Mater et Magistra*, 132.

[7] John XXIII, *Mater et Magistra*, 20; Vatican II, *The Church In The Modern World*, 67, 70.

[8] The Employment Situation: October 1975; U.S. Department of Labor, Bureau of Labor Statistics; November 7, 1975.

[9] Department of Labor figures for October 1975 indicate:
- One out of five teenagers were jobless.
- Over 11% of all blue collar workers were out of work.
- 14.2% of all minority persons were unemployed.
- Nearly 40% of all minority teenagers were jobless.
- 134 of our 150 major urban areas were officially listed as areas of substantial subemployment.

WRITTEN TESTIMONY OF MOST REV. EUGENE MARINO, AUXILIARY BISHOP OF WASHINGTON, D.C., ON BEHALF OF THE U.S. CATHOLIC CONFERENCE, REGARDING THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976

INTRODUCTION

Mr. Chairman, Members of the Committee, I am Bishop Eugene Marino, Auxiliary Bishop of the Catholic Archdiocese of Washington, D.C. I am testifying today as a representative of the United States Catholic Conference, the national action agency of the Roman Catholic Bishops of the United States. With me today is Mr. John Carr of the staff of the Conference.

We are very pleased to have this opportunity to express our views on full employment legislation and in particular, H. R. 50, the Full Employment and Balanced Growth Act of 1976.

Last November the Catholic Bishops unanimously adopted a major policy statement on economic issues, entitled, "The Economy: Human Dimensions." Since this statement provides the basis for my testimony, I have made copies available to the subcommittee and I ask that the text of the statement appear in the record.

In addition to this statement, our testimony this morning flows from a three-day hearing conducted by a panel of Bishops on unemployment and several detailed studies prepared for the Bishops use by six skilled economists. These background papers on unemployment, inflation and other issues were prepared by Dr. Paul Samuelson, Leon Keyserling, Robert Eisner, Helen Ginsberg, Daniel Larkins and Lester Thorow.

SCOPE OF TESTIMONY

My testimony this morning will not focus on the technical aspects of the legislation before you. You have already heard and will hear in the future from skilled and experienced persons whose expertise will assist the committee in evaluating the detailed workings of this legislation. Rather, I speak out of a religious tradition of concern for human rights and social justice. I wish to call to the subcommittee's attention the moral dimensions of the matter before you. We must face the fact that at this time our national economy is the most critical setting for the achievement of greater human dignity and justice. We cannot allow our economic life to be guided solely by market forces and the clash of interest groups. We must insist that economic policy serve the common good, the needs of people and the principles of social morality.

UNEMPLOYMENT: HUMAN, SOCIAL AND MORAL DIMENSIONS

Our interest in this legislation flows from a concern for the human, social and moral dimensions of economic life. As religious leaders and pastors we cannot ignore the human suffering and deprivation resulting from long-term unemployment. Behind the statistics and charts lie human lives and individual tragedies. Long-term joblessness destroys confidence and hope. It diminishes self-respect and ambition. It also erodes family relationships and community life. Reliable data clearly documents the direct relationship of high unemployment to increased levels of crime, drug addiction, alcoholism and mental and physical illness. In short, long-term unemployment threatens the basic human dignity of its victims and lowers the quality of life for many of our citizens.

In our view, these human and social consequences are just as important as the substantial economic costs of lower industrial production and lost government revenues resulting from high levels of unemployment. This human toll deserves equal consideration in your deliberations. We hope that legislators and administrators while focusing on the technical workings and statistical measures of economic forces, will consider the very real impact of their policies on families and individuals struggling to provide a decent life for themselves and those who depend upon them. As the Bishop declared in their statement of last November, "Our economic life must reflect broad values of social justice and human rights. . . . It must serve people's needs."

CURRENT ECONOMIC SITUATION

This message appears to be in sharp contrast with recent encouraging news of economic progress and recovery. We welcome these signs of recovery and pray that they will grow in intensity and strength month by month. However, the fact remains that over seven million Americans are out of work, that one-third of them have been jobless for fifteen weeks or longer. 972,000 additional persons have given up looking for work out of frustration, according to the latest data. In addition, over 3 million persons are working part-time although they desire full-time jobs. This means 11.3 million Americans presently suffer some form of unemployment.

It is important to note that the recent improvement in the economic indicators reflects only *relative* progress. In normal times, 11.3 million persons out of work would be cause for deep concern and even outrage, not rejoicing. It is only through the lens of unprecedented recession that we can see these levels of unemployment as encouraging signs.

Another reality is that these indicators represent overall averages and therefore do not reflect the inequitable distribution of joblessness. While some groups are experiencing relative prosperity, others remain at depression levels of unemployment. The official unemployment rate for blacks and other minorities actually increased one half of one percent in February to 13.7%. Nearly one out of five teenagers in the job market is still unemployed. The level of unemployment among black teenagers actually increased to 35.2% in February. Blue collar unemployment remains well over 9%. And two and one-half million persons have been unemployed for fifteen weeks or more; 700,000 more than only one year ago.

A LONG-TERM PROBLEM

Unemployment is not only a short range, cyclical problem requiring temporary measures to alleviate suffering. Rather, a careful analysis reveals that since World War II, unemployment has been substantial, persistent and drifting upward. The promise of the Employment Act of 1946 has not been fulfilled. In fact, it has fallen increasingly short of its broad social and economic purposes. When joblessness rose dramatically during the recent recession, it took the form of an acute and visible crisis, superimposed on a long-term unemployment problem resulting from the continuing failure of the economy to provide an adequate supply of jobs.

We believe that the slight improvement of the last two months should not divert us from the critical task of devising long-term policies and comprehensive programs that will ensure genuine full employment. Despite the recent figures, every forecast still projects that large scale unemployment will extend into the next decade unless major new policies are adopted. The President's recent budget message assumes that under current policies unemployment in 1980 would still be well over 5% of the work force.

POSITION OF THE CATHOLIC BISHOPS

The position of the American Bishops is that these levels of unemployment are unacceptable and their human costs intolerable. In their November statement they said: "Fundamentally, our nation must provide jobs for those who can and should work and a decent income for those who cannot. An effective national commitment to full employment is needed to protect the basic human right to useful employment for all Americans. It ought to guarantee, through appropriate mechanisms, that no one seeking work would be denied an opportunity to earn a livelihood. Full employment is the foundation of a just economic policy; it should not be sacrificed for other political and economic goals."

As this strong statement makes clear, we are committed to supporting comprehensive legislation to guarantee genuine full employment as the foundation of a just and responsible economic policy. We want to take this opportunity to declare our basic support for H.R. 50, the Full Employment and Balanced Growth Act of 1976, and express our view that it provides the most comprehensive and useful approach to full employment now before Congress. This legislation can and should be further refined and improved as it makes its way through the legislative process. However, we urge that its basic thrust toward comprehensive planning and job creation leading to genuine full employment not be diluted.

RIGHT TO EMPLOYMENT

H.R. 50 declares and establishes in Section 102, "the right of all Americans, able, willing and seeking work, to useful paid employment at fair rates of compensation." The legislation further defines this concept to mean an adult unemployment rate of 3% or less within four years.

The Bishops in their November statement proclaim a similar universal right to useful employment at just wages. We are concerned however, that the 3% adult unemployment figure within the legislation might be interpreted to exclude young people. These young people experience consistently high levels of joblessness and many have very real economic responsibilities. We must consider the social and psychological consequences of young people entering the labor force to find no use for their skills and energy. We do not believe that a person able, willing and seeking work should be excluded from this legislation because of age.

The establishment of the basic human right to employment within H.R. 50 is a major step forward and provides a sound foundation for national economic policy.

PLANNING

This legislation utilizes two complementary approaches to implement that right. The first is a comprehensive planning process which requires the President and Congress to set both qualitative and quantitative goals for full employment, production and purchasing power and to implement this plan through specific fiscal, budgetary and monetary policies.

In general, we support the proposed planning process. We believe it will provide a rational and overdue framework for economic decisions and policies. We are particularly encouraged that the Full Employment and Balanced Growth Plan focuses on the achievement of fundamental social and economic goals of full employment, production and purchasing power. Without a clear articulation of the goals to be pursued, the planning process could resemble little more than a series of discouraging forecasts of poor economic performance, rather than purposeful goals and policies to achieve them.

At the same time, we must add a note of caution regarding the central role of the planning process. Effective planning requires broad participation of the parties involved and real commitment to the overall goals. The effectiveness of the planning process will depend on the ability of the legislative and executive branches to involve a broad cross section of interests in the formulation of the various alternatives, and the performance of those responsible to implement the plan. While we are impressed with the requirements for the plan in Title 1, Sec. 103 and 104 and the specific deadlines spelled out in the legislation, we hope the subcommittee will consider ways to strengthen the accountability of those who play key roles in the formulation and implementation of the plan (e.g. the President, the Council of Economic Advisors, the Federal Reserve Board, the Congressional Joint Economic Committee, the House and Senate Budget Committees among others). The revised legislation seems to rely on general mandates, specific deadlines, and public pressure to insure adequate implementation. The experience with the Employment Act of 1946 should warn us that good intentions and general requirements cannot substitute for specific mandates and effective oversight.

JOB CREATION

The second and related approach to the implementation of the right to employment is a range of job creation programs in both the private and the public sector. We believe this section of the revised bill is a major improvement on the earlier drafts and provides an essential complement to the planning process detailed in Title I.

In their November statement the Bishops declared their support for measures such as those detailed in Title II. The programs related to youth unemployment, structural and regional joblessness and aid to local and state governments provides a sturdy framework for job creation efforts.

We support public service jobs for persons who are unable to obtain employment within the private sector. We specifically reject claims that work within the public sector is necessarily less productive, efficient or useful than employment in private industry. The kinds of jobs outlined in Title II would help to meet the vital needs of our people in housing, transportation, education, recreation and health care. We cannot accept the notion that a nurses aide in a general hospital or a public service employee rehabilitating homes in our cities is somehow less productive or contributes less than those in the private sector who sell products or work in a factory. Clearly, the vast majority (over 80%) of our people will and should be employed in the private sector and we should attempt to stimulate private employment through a variety of means, including some contained in this legislation. However, we should not exclude the important and essential role of public employment at times of major joblessness. We therefore support the standby job programs discussed in Sec. 206 (d and e). We believe it is better to spend funds to create and maintain employment than to require families to subsist on unemployment compensation and other assistance.

CONCLUSION

We hope these limited comments manifest our concern and belief that the Full Employment and Balanced Growth Act of 1976 will provide a large step toward a more just and rational economic policy. In their policy statement, the American Bishops declared: "Government must play a role in the economic activity of its citizens. Indeed, it should promote in a suitable manner the production of a sufficient supply of material goods. Moreover, it should safeguard the rights of all citizens, and help them find opportunities for employment." Through structural reforms, a comprehensive planning process and job creation programs, H.R. 50 provides a workable and practical mechanism for realizing the governmental role we have described.

Full employment is not simply an economic issue, nor is it essentially a political matter. It is a fundamental question involving the quality of life and the basic justice of American society. It should not be a partisan issue, but rather an opportunity to declare that this nation has the needs, the resources, the will and the compassion to harness the creativity and productivity of all its people.

Forty-five years ago, the American Catholic Bishops declared:

"Our country needs, now and permanently, such a change of heart as will, intelligently and with determination, so organize and distribute our work and wealth that no one need lack for any long time the security of being able to earn an adequate living for himself and for those dependent upon him."

The passage of comprehensive full employment legislation would provide evidence of that long overdue "change of heart." It would also be a significant step toward greater economic justice and opportunity for all Americans.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 7, 1976.

Hon. DOMINICK DANIELS,
Chairman, Subcommittee on Manpower, Health and Safety,
Education and Labor Committee,
Rayburn Building,
Washington, D.C.

DEAR DOM: I would like to submit the enclosed testimony for the record of the hearings of your subcommittee on HR 50.

Thanks.

Yours,

JAMES H. SCHEUER.

Enclosure.

On April 12, we learned from the Department of Health, Education and Welfare that over $24 billion was paid in welfare and related services and over $21 billion in unemployment compensation to citizens of the United States during 1975. To this $45 billion dollars that went to people outside the work force we must add the sums lost by the lack of productivity of these people—a figure difficult to quantify—to obtain the total cost of welfare and unemployment in our nation.

How can we continue to justify this huge expenditure and the accompanying opportunity cost? How can we continue to pay people not to work? Our society cries out for jobs to be done, services to be performed, and products to be created. Thousands of potential workers state their readiness to go to work, yet when full employment is proposed as a national goal, we are told it is too costly, or that the inflationary effects would be too severe.

We need only to examine the figures I have just cited to see the absurdity of that position. Nothing could be more costly than keeping people idle; nothing could be more destructive than telling a citizen there is no place for him in the work force.

There are two groups in our society especially hard hit by the recession, the young and the old. The under-18 and the over-40 worker have higher unemployment rates and suffer longer periods of unemployment than do other age groups. Special efforts need to be taken to bring unemployed members of these two groups into the work force even as programs are developed for the population at large.

H.R. 50 is a major attempt to set an unemployment rate target (of 3%) and define mechanisms to arrive at that target. It places unemployment in the context of a general growth program and relates it to fiscal as well as manpower policies. It's goal of 3% unemployment is ambitious but wholly possible. Other Western countries have reached it; there is no reason why this country cannot.

I fully support this legislation and urge its speedy passage by the House.

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